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United States Court of Appeals
FOR THE NINTH CIRCUIT

C. J. MONTAG & SONS, INC., et al,
Appellees-Appellants,
vs.
INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants-Appellees.
No. 18875

HOLMAN ERECTION COMPANY, INC.,
Appellee,
vs.
INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants.
No. 18876

CURTIS CONSTRUCTION CO., a corporation
Appellee,
vs.
INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants.
No. 18877

Appeal from the United States District Court for the Eastern District of Washington, Southern Division
HONORABLE WILLIAM J. LINDBERG, *Judge*

APPELLANTS' BRIEF

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KERSHAW'S, INC.

United States Court of Appeals
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United States Court of Appeals
FOR THE NINTH CIRCUIT

C. J. MONTAG & SONS, INC., et al, HOLMAN ERECTION COMPANY, INC., CURTIS CONSTRUCTION CO., *Appellees,* vs. INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al, *Appellants.*	No. 18875 No. 18876 No. 18877

Appeal from the United States District Court for the Eastern District of Washington, Southern Division
HONORABLE WILLIAM J. LINDBERG, *Judge*

APPELLANTS' BRIEF

STATEMENT AS TO JURISDICTION

This is a consolidated brief.

In case No. 18875 the appellees are C. J. Montag & Sons, Inc., a corporation, Carl M. Halvorson, Inc., a corporation, Austin Construction Company, a corporation, Babler Bros., Inc., a corporation, and McLaughlin, Inc., a corporation. The contractors constituting the appellee in this numbered case were joint venture contractors and will be referred to in this brief as "Montag."

In case No. 18876 Holman Erection Company, Inc., a corporation, will be referred to in this brief as "Holman."

In case No. 18877 Curtis Construction Company, a corporation, will be referred to as "Curtis."

When the actions were commenced in the United States District Court the appellants included the Washington State Council of Carpenters and the Columbia River Valley District Council of Carpenters, but these two appellants having been dismissed from the action, the appellants in all three cases are now the International Brotherhood of Carpenters and Joiners of America (AFL-CIO) and Carpenters Local 1849 of the United Brotherhood of Carpenters and Joiners of America located at Pasco, Washington. Hereafter these two appellants will be referred to as the "International" and as "Local 1849."

References to the Clerk's Transcript will be references to "CT." References to the Reporter's Transcripts will be references to "RT."

There are three separate Clerk's Transcripts of record for each of the consolidated cases, while there is one Reporter's Transcript covering all of the three cases. This was so because the cases were all tried together in accord with the identical charges made by each of the appellees.

Note should be taken of the following facts. Although all of the actions were commenced late in 1957, their ultimate determination was delayed. The untimely death of Judge Driver in the late summer of 1958 resulted in a vacancy on the bench which was not filled until about a year later in 1959. The appointee and present judge of the United States Dis-

trict Court for the Eastern District of Washington, Honorable Charles L. Powell, felt that he was disqualified by reasons of relationship, and consequently all hearings on matters involved were undertaken by the Honorable William J. Lindberg of Seattle, Washington. Because of the geographical difficulties, the Court being in Seattle, and counsel being located in Spokane, Washington, Portland, Oregon, and Absarokee, Montana, various hearings were held and testimony taken at Yakima, Seattle and Spokane.

Appellee Montag commenced an action against appellants International and Local 1849 on October 11, 1957 under Section 303 of the Labor Management Relations Act of 1947, 29 U.S.C.A., Section 187, hereafter referred to as the "Act." Montag alleged that while it was engaged in the construction of a dam on the Snake River under contract with the United States, involving navigation, flood control and power, near Pasco, Washington, which involved use of over seventeen million dollars ($17,000,000.00) of materials, etc. one-half of which came from out of state, the appellants engaged in and induced and encouraged the employees of appellee on the Ice Harbor Dam project, and the employees of other employers to engage in a concerted refusal in the course of their employment to use, manufacture, process, transport, or otherwise handle or work on any goods, articles, materials, or commodities of the appellee, or to perform any services for the appellee. Montag alleged that an object in the activities of the appellants was to force and to require Montag to assign the work of the rigging of forms to the members of the appellant Lo-

cal 1849, rather than to other persons of a different labor organization, particularly to members of the International Association of Bridge, Structural, Ornamental Iron and Reinforced Steel Workers Union Local No. 14, hereafter Iron Workers No. 14, to whom Montag had assigned such work. It was alleged that none of the appellants had been certified by the National Labor Relations Board as the bargaining agent or representative for employees performing the work assigned by the appellee, and that the direct result of the actions of the appellants was to close down the construction work (there was no picketing) and that as the result Montag suffered damages in excess of one-half million dollars. (See No. 18875, CT pp 1-5 incl., increased later to $572,313.18, R.T. 206.)

In No. 18876 Holman filed its complaint on November 4, 1957, asserting its claim in the same fashion and under the same statute as Montag. Holman was a subcontractor having entered into a contract with the prime contractor, Montag, and it claimed damages of approximately $75,000.00 (See No. 18876, CT 1-5 incl.)

In No. 18877 Curtis sued the appellants and filed its action on December 6, 1957, invoking the same statutory authority (29 U.S.C.A., Sec. 187) as had been set out by Montag and Holman. Curtis was also a subcontractor on the building of the Ice Harbor Dam. Curtis claimed damages in the sum of approximately $165,000.00. (See No. 18877, CT 1-4 incl.)

The three appellees sought approximately $35,000.00 in attorneys' fees, plus costs.

By way of pleading to the claim of Montag in No. 18875 appellants denied the claims of Montag and alleged that if the construction work of Montag was suspended it was due to the fact that Montag summarily discharged the carpenter employees who were members of Local 1849 and of the International Brotherhood. Appellants also cross-complained against Montag and invoked the provisions of the Labor Management Relations Act of 1947, particularly Section 301, 29 U.S.C.A., Sec. 185, claiming a breach of contract by Montag. Appellants alleged that Montag, appellee, and appellants were parties to a "plan for settling jurisdictional disputes nationally and locally" and that such a system and plan provided for arbitration of jurisdictional controversies by the "National Joint Board for the Settlement of Jurisdictional Disputes." Appellants in the cross-complaint alleged that the appellee Montag and appellants were also bound by the "Carpenter Agreement for Building, Highway and Heavy Construction Covering Eastern Washington, Northern Idaho," which provided in essence that the procedure of the National Joint Board for Settlement of Jurisdictional Disputes should govern; and that Montag violated the agreement by failing to comply with the procedures and assign the work to the Carpenters Union in accord with the established practice in the area where the construction was commenced and was in progress. Appellants likewise asserted that Montag had refused and was refusing to comply with a lawful decision, order and directive promulgated after hearing by the National Joint Board for the Settlement of Jurisdictional Disputes which ordered the

assignment of certain disputed work to the appellants. It was the position of appellants that both parties having agreed to submit the dispute to the National Joint Board, and having thereafter submitted it, that both parties were bound by the decision and that the appellee Montag breached its contract with the appellants when it refused to comply with the order of the National Joint Board. It was claimed by appellants that certain sums were due by virtue of Montag's breach of the agreement. (See No. 18875, CT 10-19 incl.)

In No. 18876 (Holman) and No. 18877 (Curtis), the appellants denied the allegations of the claims of those appellees, and asserted that if the claimants were forced to suspend construction work then it was not due to any action of the appellants, but was due to the failure of appellee Montag to comply with the provisions of the agreements in force between Montag and appellants, and that in any event appellants did not violate any statutory proscription. (See No. 18876, CT 9-12 incl.; see No. 18877, CT 11-14 incl.)

In No. 18875 judgment was entered in favor of Montag and against the appellants on February 19, 1963, in the sum of $164,527.55. (See No. 18875, CT 73-74 incl.) Following post trial motions the court entered its order denying the motions and amending a supplemental conclusion of law on May 1, 1963. (See No. 18875, CT p. 83.) An appeal from that judgment was taken on May 31, 1963. (See No. 18875, CT p. 84.)

In Holman, No. 18876, the court entered judgment for the appellants and against Holman, and dismissed

the action without any award of damages on February 20, 1963. (See No. 18876, CT 32-33.) On May 1, 1963 the court signed and filed an amended judgment awarding Holman damages of $10,000.00 against appellants. (See No. 18876, CT 38-39). On May 31, 1963 appellants took an appeal from that judgment. (See No. 18876, CT p. 40.)

In Curtis, No. 18877, the court entered judgment on behalf of Curtis in the sum of $42,877.92 on February 19, 1963. (See No. 18877, CT 46-47.) On May 1, 1963 the court denied all post trial motions, and on May 31, 1963 appellants took an appeal from the judgment of the court. (See No. 18877, CT 53-54.)

The appellate jurisdiction derives from 28 U.S.C.A., Sec. 1291, which provides that:

> "The Courts of Appeal shall have jurisdiction of appeals from all final decisions of the District Courts of the United States * * * * * * * * *."

STATEMENT OF THE CASE

Following a number of conferences and substantial work on a series of proposed pretrial orders, agreement was reached on what might be termed a "master" pretrial order, which is set out in full in the Appendix. (See pp. 65 Appendix.) Likewise, this particular pretrial order is found in case No. 18875, Montag, at pages 24 to 37, Clerk's Transcript.

Similar pretrial orders, with no substantial variance, except as dictated by reason of the position of the claimants (the subcontractors) are found in Hol-

man No. 18876, pp. 13 to 21, Clerk's Transcript, and in Curtis No. 18877, pp. 16 to 23, Clerk's Transcript.

All of the orders were agreed pretrial orders on liability issues. The further pretrial orders on remaining issues which referred essentially to damages may be found as follows: In Montag, case No. 18875, at pages 62 to 67 of the Clerk's Transcript; in Holman, case No. 18876, no further pretrial order was made; in Curtis, No. 18877, pages 39-42 of the Clerk's Transcript.

In this statement substantial emphasis will be deferred for argument on exhibit 4, deposition of H. H. Brown, exhibit 5, deposition of L. J. Hiller, exhibit 6, deposition of W. H. Hankins, exhibit 7, deposition of George Holland, exhibit 8, deposition of Sam Pickel, and exhibit 9, deposition of Richard James Mitchell.

Pages 1 to 188 of the Reporter's Transcript deal in great measure with the question of agency between the International and Local 1849. The balance of the Reporter's Transcript deals almost exclusively with the proofs of damage and the evidence opposed thereto; that part of the Reporter's Transcript also includes certain memorandums by the court on the post trial motions.

Facts agreed upon in the pretrial order may be related as follows: All of the appellees, Montag, Holman and Curtis, brought their actions under Section 303(b) of the Labor Management Relations Act of 1947, 29 U.S.C.A., Sec. 187(b). They claimed that appellants violated that Act in inducing and encour-

aging the employees of appellee, Montag, to engage in a concerted refusal to perform services for Montag, otherwise termed a strike, the object of which was to force and require Montag to assign the rigging of wooden forms to members of the appellants, rather than to members of the Iron Workers Local 14 to whom the employer Montag had assigned such rigging work. As previously referred to in the Jurisdictional Statement, the appellants on their side sought enforcement of an award made to them by the National Joint Board.

All parties agreed on a definition of the terms, referring to the various parties, etc. (See Appendix, pp. 67.)

All of the corporations, i.e. Montag (includes all corporations in the joint venture), Holman and Curtis were qualified to do business in the State of Washington, and all of them were engaged in construction work at the time of the acts complained of.

Montag and the others in that joint venture, by a contract dated January 4, 1957, were engaged in the construction of a dam on the Snake River in Walla Walla County in the State of Washington, which we shall refer to as the Ice Harbor Dam project. This construction work was being performed for the United States, Department of the Army Corps of Engineers, pursuant to a contract between Montag and the United States, Department of the Army Corps of Engineers, No. DA-45-164-CIVENG-57-62. The Snake River is a navigable river and a part of the Columbia River System. Construc-

tion of the Ice Harbor Dam was and is a part of a comprehensive plan for the development of the Columbia River and tributaries in the States of Montana, Idaho, Washington and Oregon in the control of floods, the increase of navigation and the production of electrical power for industrial and domestic uses in the states. The construction was commenced on or about January 28, 1957, and was completed in the month of February 1959. Appellees during the construction used materials, equipment and supplies in a minimum aggregate amount of seventeen million dollars ($17,000,000.00) of which more than fifty percent was purchased outside of the State of Washington and brought to the Ice Harbor Dam for use.

The International Union (Carpenters) was a labor organization generally engaged in representing and acting for members in local unions in the State of Washington, and in other states and territories of the United States, while Local 1849 (Carpenters) was and is a labor organization which was chartered and affiliated with the defendant International, having its headquarters in Pasco, Washington, and it was engaged in representing its members in and about that city.

During the controversy and any time material in these facts there was no order or certification of the National Labor Relations Board which determined the bargaining representative for employees who were performing rigging work at the Ice Harbor Dam project, the rigging work being the subject of controversy, as will later appear. After commencement of the work,

and on or about April 26, 1957, Montag assigned the work of rigging certain forms, including both metal and wood forms on multipurpose cranes, to the members of the Iron Workers Local No. 14. Montag based its assignment to Local 14 on what it claimed was the result of written replies to inquiries which it addressed to contractors and other major dam projects in the Pacific Northwest. Montag took the position that these inquiries, and the answers thereto, supported their assignment and that it was in accord with Montag's construction of the procedural rules and regulations of the National Joint Board for the Settlement of Jurisdictional Disputes, Building and Construction Industry. (See exhibit 3.)

Appellants objected to the position taken and assignment made by Montag. It was the Carpenters' contention that under the "Carpenter Agreement for Building, Highway and Heavy Construction Covering Eastern Washington and Northern Idaho, 1956-1957-1958" to which Montag and the appellants were parties, that the appropriate precedent under the same "Procedural Rules and Regulations of the National Joint Board . . ." invoked by Montag called for the area practice, and that the practice followed by the contractors in the area of the Local and at the "Hanford Project" (plutonium production) required that Montag assign the rigging work to appellants' people. (See exhibit 1, 3.)

Thereafter on or about June 6, 1957 the members of Local 1849, Carpenters employed by Montag refused in the course of their employment to work on

or handle the wooden forms after the same had been rigged by members of Local 14, and again on or about September 10, 1957, the members of Local 1849 employed by Montag again refused in the course of their employment to work on or otherwise handle wooden forms that had been rigged by members of Local 14 Iron Workers. The object of the refusal was to require Montag to assign certain rigging work to members of Local 1849 rather than to members of Local 14 Iron Workers. The Local 1849 acted in concert and had the object of securing the work of rigging forms for the Carpenters Local 1849. As a result of the refusal of the defendant Local 1849, the construction work on the project was halted on two occasions, from June 6 to June 22, 1957, and from September 10 to September 26, 1957. It was the contention of the appellees, which was denied by the appellants, that the refusal of Local 1849 and its members to work on the wooden forms continued throughout the periods.

Thereafter Montag and appellants submitted the question of the dispute to the National Joint Board for the Settlement of Jurisdictional Disputes, and that Board undertook to resolve the dispute pursuant to Article X of the Contract (see exhibit 1; also see exhibits 2 and 3.)

On November 27, 1957 the National Joint Board, following hearings, issued a decision as follows:

> "The hooking on, handling and signalling of all wooden forms shall be assigned to Carpenters. In other respects there is no basis to change the contractors' assignment. However, when not working on, hooking on, handling and signalling

operations the trade shall proceed with other work as assigned by the contractor."

At this time Montag had assigned the rigging work, including rigging wooden forms, to the Iron Workers and admits that it refused to follow the Joint Board and that it made no change in such assignment, and continued to refuse to accede to the order of the Joint Board right on through to the completion of the job itself.

This recitation of agreed facts is applicable to the three cases before the court. All of the pretrial orders in the respective cases present the same circumstances and facts appropriate to the ultimate determination of liability under the sections of the Act invoked by all three appellees. (See pp. 65 Appendix; Montag, No. 18875, CT 24-37; Holman No. 18876, CT 13-21; Curtis No. 18877, CT 16-23.)

In Montag No. 18875, the findings on agreed facts entered by the court were precisely in accord with the agreed facts in the pretrial order, and were likewise precisely in accord with the agreed facts in the pretrial orders in the other two cases, to-wit, Holman No. 18876 and Curtis No. 18877. In all of the cases the court concluded from the agreed facts that:

> "2. Defendants' conduct violates Sec. 303(a)(4) of the Labor-Management Relations Act, 1947, and is actionable under Sec. 303(b) thereof, and said defendants are liable to plaintiffs for damages caused thereby." (In Montag No. 18875, CT 53-61; in Holman No. 18876, CT 22-28; in Curtis No. 18877 CT 24-29.)

These cases having been tried first as to liability issue, and second as to damages, resulted after hearing on claims of damages in the judgments heretofore referred to.

Appellants urge that their acts and conduct as detailed in the pretrial order, and in the findings of fact, did not violate Sec. 303(a)(4) of the Labor-Management Relations Act of 1947, 29 U.S.C.A. Sec. 187(a)(4) and were not actionable under Sec. 303(b) 29 U.S.C.A. Sec. 187(b); that no active jurisdictional dispute existed between the appellants and Iron Workers Local 14, or any other union or group of employees, because the dispute was wholly between the appellee employer Montag and the appellants; that appellants claimed the allocation of work in accord with contract and practice which appellee Montag denied in making its allocation for its economic self-interest. Appellants contend that such a dispute is not cognizable under the statutory section invoked by appellees, unless in fact the appellants were in an active dispute with another union.

SPECIFICATION OF ERRORS

(a) Montag, No. 18875:

1. Acts and conduct of appellants did not violate Section 303(a)(4) of the Labor-Management Relations Act of 1947, as amended, and was and is not actionable under Section 303(b) thereof.

2. The Court erred in law in concluding that a jurisdictional dispute existed and was present between the appellants and the Iron Workers Union as con-

templated and provided in Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

3. The Court erred in law in concluding that there was an actionable dispute involving appellants within the meaning of the Act, because the dispute was not of prohibited jurisdictional character. The dispute was between the appellee employer and appellants about the allocation of work, there being no active jurisdictional dispute between the appellants and any other union or group of employees.

4. The appellants were entitled by contract agreement with appellees to certain work, which appellees refused to assign to them, in breach of the contract; and the refusal of appellants to continue working did not constitute conduct by appellants prohibited by Section 303(a)(4) of the Act.

5. The Court erred in not holding and concluding that appellants had proved substantial damages as a result of a breach of contract by the appellees, and in not holding and concluding that appellants were entitled to damages against appellees in the sum of not less than $40,000.00.

6. The Court erred in holding and concluding that the appellant International Brotherhood of Carpenters and Joiners of America was and is liable for the acts of appellant Local 1849, United Brotherhood of Carpenters and Joiners, for the reason that appellees did not prove, nor does the evidence justify the holding and conclusion that the appellant International Brotherhood participated with said Local in the ac-

tions of appellant Local 1849 claimed by appellees to have violated Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

7. The Court erred in holding that appellees suffered damages of $164,527.55, and in entering judgment for appellees against appellants in the sum of $164,527.55.

SPECIFICATION OF ERRORS

(b) Holman, No. 18876:

1. Acts and conduct of appellants did not violate Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended, and was and is not actionable under Section 303(b) thereof.

2. The Court erred in law in concluding that a jurisdictional dispute existed and was present between the appellants and the Iron Workers Union as contemplated and provided in Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

3. The Court erred in law in concluding that there was an actionable dispute involving appellants within the meaning of the Act, because the dispute was not of prohibited jurisdictional character. The dispute was between the appellee employer (prime contract) and appellants about the allocation of work, there being no active jurisdictional dispute between the appellants and any other union or group of employees. Appellee sub-contractor here cannot prevail because prime contractor Montag et al cannot prevail.

4. The appellants were entitled by contract agreement with appellee (prime contractor) to certain work, which appellee (prime contractor) refused to assign to them, in breach of the contract; and the refusal of appellants to continue working did not constitute conduct by appellants prohibited by Section 303(a)(4) of the Act.

5. Appellee sub-contractor here is relegated to same position as primary contractor Montag et al, and is barred from recovery by reason of paragraphs 1, 2, 3, 4, supra.

6. The Court erred in holding and concluding that the appellant International Brotherhood of Carpenters and Joiners of America was and is liable for the acts of appellant Local 1849, United Brotherhood of Carpenters and Joiners, for the reason that appellee did not prove, nor does the evidence justify the holding and conclusion that the appellant International Brotherhood participated with said Local in the actions of appellant Local 1849 claimed by appellee to have violated Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

7. The Court erred in holding that appellee suffered damages of $10,000.00, and in entering judgment for appellee against appellants in the sum of $10,000.00.

SPECIFICATION OF ERRORS

(c) Curtis, No. 18877:

1. Acts and conduct of appellants did not violate Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended, and was and is not ac-

tionable under Section 303(b) thereof.

2. The Court erred in law in concluding that a jurisdictional dispute existed and was present between the appellants and the Iron Workers Union as contemplated and provided in Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

3. The Court erred in law in concluding that there was an actionable dispute involving appellants within the meaning of the Act, because the dispute was not of prohibited jurisdictional character. The dispute was between the appellee employer (prime contractor) and appellants about the allocation of work, there being no active jurisdictional dispute between the appellants and any other union or group of employees. Appellee sub-contractor here cannot prevail because prime contractor Montag et al cannot prevail.

4. The appellants were entitled by contract agreement with appellee (prime contractor) to certain work, which appellee (prime contractor) refused to assign to them, in breach of the contract; and the refusal of appellants to continue working did not constitute conduct by appellants prohibited by Section 303(a)(4) of the Act.

5. Appellee sub-contractor here is relegated to same position as primary contractor Montag et al, and is barred from recovery by reason of paragraphs 1, 2, 3, 4, supra.

6. The Court erred in holding and concluding that the appellant International Brotherhood of Carpenters and Joiners of America was and is liable for the

acts of appellant Local 1849, United Brotherhood of Carpenters and Joiners, for the reason that appellee did not prove, nor does the evidence justify the holding and conclusion that the appellant International Brotherhood participated with said Local in the actions of appellant Local 1849 claimed by appellee to have violated Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended.

7. The Court erred in holding that appellee suffered damages of $42,877.92, and in entering judgment for appellee against the appellants in the sum of $42,877.92.

ARGUMENT

(a) The appellants are not liable for damages because they did not engage in conduct proscribed by 303(a)(4) of the Labor Management Relations Act of 1947. Any dispute which existed was created by the employer, appellee Montag, and was with Montag. First four Specifications of Error in Montag and first five Specifications of Error in Holman and Curtis.

(b) Local 1849 was not an agent of the International, and the International is not liable.

(c) Appellants are entitled to damages in a sum of not less than $40,000.00 from appellee Montag.

(d) Appellees are not entitled to damages.

This argument is directed to the primary legal issue which is made by the first four Specifications of Error in Montag, and the first five Specifications of Error listed in Curtis and Holman. (Supra pp. 14-17 this brief.) Appellants urge that they were guilty of

no acts which violated Section 303(a)(4) of the Labor Management Relations Act of 1947, as amended, and that such acts as they engaged in were not actionable under Section 303(b) of the Act, 29 U.S.C.A., Sec. 187(a)(4); 29 U.S.C.A., Sec. 187(b). Appellants contend that the dispute here involved was between the appellee Montag and the appellants about the allocation of work as provided by contract between appellants and Montag, that there could not be a jurisdictional dispute between the appellants and Montag under the Act and there was no jurisdictional dispute between appellants and any other union as contemplated by the Act. Neither the Act nor any sections thereof contemplate that any right of action is accorded to an employer who is the sole and primary disputant in a work controversy. Therefore the court was in error in finding that:

> "2. Defendants' conduct violates Sec. 303(a)(4) of the Labor-Management Relations Act, 1947, and is actionable under Sec. 303(b) thereof, and said defendants are liable to plaintiffs for damages caused thereby." (Montag, No. 18875, CT 60; Holman, No. 18876, CT 28; Curtis, No. 18877, CT 29).

We respectfully direct the court's attention to the opening statement of appellee, Montag:

> "The agreed facts in the pretrial order spell out in some detail the background of dispute and the relationship of the parties. . . ." (RT p. 15, lines 18-20.)
>
> ****
>
> "It was not too long after that—I think on the 3rd of June, that the trouble first started on the

multipurpose crane and at that time the members of the Carpenters' Union took the position that they would not handle, complete or have anything to do with any wooden form that had been rigged by the Iron Workers, and Mr. Brown served notice on the company, in line with the notice he had served before, that that was carpenters' work and he wouldn't touch it.

"The men were sent home. I think they worked through that first day and then they were sent home and a few days later a call was put in to the Carpenters' Union and the carpenters were sent back on the job and they still refused to handle the wooden forms and were laid off again.

"Complaint was made to President Hutcheson of the Carpenters' Union. (RT p. 22, lines 4 to 21.)

****

"Mr. Hutcheson of the Carpenters and Mr. Lyons of the Iron Workers in the meantime had discussed this matter and Lyons advised his representative that the Iron Workers would relinquish the handling of these forms. Accordingly, when the International Representatives (both Carpenter and Iron Worker) showed up the employers were insisting that the men go back to work as they were required to do under the joint plan for settlement of jurisdictional disputes.

"The position of the International Representative of the Carpenters was that the men would not go back until the dispute was resolved and, consequently, they spent several days trying to find ways to iron out the dispute.

"Eventually on June 20 they came to an agreement which was signed by Mr. Holland of the Iron Workers and Mr. Hiller, the International Representative of the Carpenters' Union, in which they agreed that the work should be

handled in a particular way that the men would go back to work and there would be no further work stoppage.

"Then the matter carried on from that time up until the month of August and in the month of August (this refers to 1957) a wire came out from President Hutcheson of the Carpenters' International, which is also an exhibit in this case, (exhibit 43) advising the International Representative of the Carpenters' Union that the Carpenters and Iron Workers had agreed on a division of work under which the making and handling of all wooden forms was to be the work of the Carpenters, including the use of power equipment, and instructions were issued to the International Representatives to place the policy in effect on the project. Accordingly the International Representatives and Mr. Brown of the Local Union approached the plaintiff contractor on the job and showed him the telegram they received from Hutcheson and announced that that policy was going to be enforced on the Ice Harbor project and the contractor demurred and I think September 5th the men showed up and each of the Carpenter Representatives had a copy of the telegram and they announced on the job that they were going to enforce the directions. Consequently they refused to handle any forms handled by the Iron Workers and it was shut down again . . ." (RT p. 23, line 15 to page 25, line 9.)

Generally this is a correct narrative statement and supports the contention of appellants (see statement of Guess, infra p. 25) that appellee Montag determined before the commencement of the construction that it would assign work to the Iron Workers and that despite any demand of the Carpenters, job history in the area, questions of contract, agreements between Carpenters and Iron Workers eliminating

any jurisdictional controversy, or decisions of the National Joint Board for Settlement of Jurisdictional Disputes which were not acceptable, it would make the assignment that best suited only its own economic situation. We doubt that appellee Montag will depart from its claim to exclusive and sole assignment of work, for it contended in its briefs in the District Court and in its argument, that because the Board could not compel the change of a work assignment once made by an employer, appellants here were subject to suit and to damages even if the dispute was between appellants and appellee Montag. Arguments and references to the record which follow, conclusively illustrate the fact that the dispute was not jurisdictional as contemplated by the statute.

Prior to July 1, 1957, John T. Dunlop was the Chairman of the National Joint Board for the Settlement of Jurisdictional Disputes to which we will refer hereafter as the National Joint Board. He was succeeded by Richard James Mitchell as Chairman on July 1, 1957. During Mr. Dunlop's tenure as Chairman no notification had been made to the National Joint Board of any strike at the Ice Harbor project over a work assignment. (Exhibit 9, deposition of Mitchell, pages 4, 11.) According to Mr. Mitchell he had attended a meeting of the Carpenters and Iron Workers International Unions early in July 1957 in Washington, D.C., where it was agreed between the two crafts that the Iron Workers would concede to the Carpenters the right to handle and hoist wooden forms on dam sites and heavy construction projects. The two Internationals reached agreement in the

meeting, to the effect that the handling and hoisting of wooden forms on dams and heavy construction projects was properly the work of the Carpenters. This agreement was published covering the issue in dispute for the Pacific Northwest. (Exhibit 9, p. 15, 21, 22, 23, 31, 35, 36.)

In August 1957, and well before the cessation of work on the Ice Harbor Dam project on September 10, 1957, appellee Montag was well aware of the fact that the Carpenters and Iron Workers were not in conflict, but had reached agreement on the matter of the allocation of work at the project. This is borne out by the testimony of the appellee Montag representatives, and particularly by Mr. Sam Guess who was at the time the Executive Secretary of the Associated General Contractors of America in the Spokane area, and who was acting in a representative capacity for appellee Montag. Mr. Guess testified as follows:

> "Q. In substance, what did Mr. Brown of Carpenters Local 1849 tell you?
>
> "A. He told me an International agreement had been reached between the two Internationals about the rigging and that they were going to insist that the thing be put into effect, and I called Mr. Hankins at that time and he explained over the telephone to me the agreement in sum and substance.
>
> "Q. This was on August 23?
>
> "A. Yes, sir.
>
> "Q. What did Mr. Hankins tell you about the agreement?

"A. He told me that the Iron Workers would handle the steel forms and that the Carpenters would handle the wooden forms—the rigging of them; on the iron forms, or the steel forms, that the Iron Workers would hook onto them and raise them into position and that the Carpenters would take them from the sling and then on to return to ground that the Carpenters would unbutton and hook on and the steel form would go to the ground and be unhooked by the Iron Workers; he also gave me the procedure for the wooden forms. (RT p. 148, 149.)

Mr. Guess also testified that the telegram from Hutcheson of the Carpenters was made known to him in the latter part of August and that it was discussed, but that the contractor would not accede to it.

"A. *I told him that the contractor had not acceded to their demands and that he had bid the job based on rigging the job by the use of Iron Workers,* and we went into the entire history of the thing and that we didn't believe it was proper to put two crews on there, and that it was an inefficient way to run the job, and we believed that they should take the thing to the Joint Jurisdictional Board, and that the thing could be amicably settled without no strike." (RT 150, 151.) (Emphasis supplied.)

Mr. Guess further testified as follows:

"A. Well, the policy had been laid down that the Iron Workers would do the steel forms and there was an agreement between the two International Presidents that the steel forms would be the work of the Iron Workers and the wooden forms the work of the Carpenters and no deviation from that could be granted." (RT p. 156.)

There is no dispute between any of the parties that an agreement actually had been reached between the

Carpenters and the Iron Workers; for that fact is verified not only by the testimony of Mr. Guess, but by that of Mr. Mitchell. (Exhibit 9, p. 13, 14.)

George Holland, general organizer for the Iron Workers International, testified that he was well aware of the agreement reached between the two Internationals and that when the agreement was submitted to the appellee Montag it refused to comply with it, stating that it had protested to the Joint Board. Mr. Holland further testified that from that time on the negotiations did not involve disputes between the two International Unions, but consisted of the attempts of the two International Unions to agree on some form of the division of work that *would be acceptable to appellee Montag.* Thus, what has been continually labelled as the "dispute" between the Iron Workers and Carpenters, was in fact the unremitting *attempt of the unions to tailor an agreement that would be acceptable to the employer.* (See exhibit 7, deposition of Holland, pp. 33, 34, 38, 39, 40, 41, 44, 45.)

Mr. Sam Pickel, the business representative of Iron Workers Local No. 14, testified that he received a telegram from the President of the Iron Workers that an understanding had been reached between the Carpenters and the Iron Workers, and he was advised, as was Holland and the Carpenters, to put the agreement into effect on the projects in question, including the Ice Harbor Dam project.

Mr. H. O. Montag, the top official of appellee Montag, was also well aware of the agreement made be-

tween the Iron Workers and the Carpenters. (RT pp. 695, 696.)

The evidence wholly preponderates to the effect that in August the appellee Montag knew about the agreement between the Carpenters and the Iron Workers. There is strong evidence that appellee could have been aware of the agreement made in Washington on July 11, long before it created the controversy itself on September 10, 1957. The record and the opening statement of counsel for Montag, heretofore quoted, indicates that even in June of 1957 the unions had made an agreement about the work and that the Iron Workers had relinquished their claims. (There is no evidence that either before or following a pre-job conference the Iron Workers had ever asserted a positive demand.)

Holland, the representative of the Iron Workers, testified that in a meeting on June 17 at the site of the Ice Harbor project, at which time he and Hiller, the International Representative of the Carpenters, and others discussed the work assignment with Mr. Darrell Mason, the project superintendent of appellee Montag, he told Mr. Mason that the Iron Workers would *immediately make concession to the Carpenters* of the handling of wood forms in any manner. He testified that Mason was "definitely not satisfied with this arrangement. . . ." Thereafter, Holland testified he left the dam site and went to Ephrata, Washington, where on the following morning he was advised to return to the dam site and settle the matter of the work assignment. Holland returned to the dam site and told Mr. Mason again that the Iron Workers were

not contesting, but were relinquishing the rigging on the wood forms. The contractor stated however that he would not return the Carpenters to work under the conditions that were discussed. Consequently, on Thursday, June 20, Mr. Hiller of the Carpenters and Mr. Mason of appellee Montag, along with Mr. Montag and Mr. Sam Guess and Mr. Holland agreed that the Carpenters would return to work and the Iron Workers would continue servicing the multipurpose cranes of the project. Some other arrangement was also entered into so far as the Carpenters' work was concerned and a stipulation was signed that there would be no further work stoppage. (See deposition of Holland, exhibit 7, p. 29, 30, 31, 32.)

Ultimately all parties, appellee Montag and appellants submitted the controversy, in accord with their contract, to the National Joint Board in Washington, D.C. On the National Joint Board eight of the members represent the unions and seven represent management. When meeting on a jurisdictional dispute all members sit as members of the Board, but only the regular members vote on a job decision. Four representatives of the unions and four representatives of management constitute the active voting regular members of the Joint Board. (Exhibit 9, deposition of Mitchell, Chairman of Joint Board, pp. 17, 18.) The Joint Board had its three hundred ninety-sixth meeting on November 26, 1957, at which time the submitted dispute between Montag appellee and appellants was taken up. After its proceedings in the controversy (exhibit 9, pp. 27-34 incl.) the Board issued its decision as follows:

> "Hooking-on, handling and signalling of all wood forms shall be assigned to Carpenters. In other respects, there is no basis to change the contractor's assignment. However, when not working on, hooking on, handling and signalling operations, the trades shall proceed with other work as assigned by contractor."

Montag, the appellee, refused to put into effect the directive of the National Joint Board. This refusal is made crystal-clear by the examination of Mr. Mitchell by Mr. Rogers, counsel for appellee Montag. (See exhibit 9, pp. 36, et seq.) Colloquy referred to in the exhibit, i.e. the deposition of Mr. Mitchell, the Chairman of the National Joint Board, shows conclusively that Montag never intended to abide any decision that did not meet its practice—established not at any consultations with the Carpenters and Iron Workers Unions—but at the time of its bid when it had determined to use Iron Workers. (See testimony of Guess, supra, p. 25 of this brief.) As Mr. Mitchell testified, the Joint Board in its decision recognized the fear of the contractor that he might he required to use duplicate crews, and the Board was of the opinion that their directive was a very proper solution to the contractor's problem. On January 9, 1958, the Joint Board again directed the contractor to accede to its directive. (Exhibit 9, p. 46.) And again in March the Joint Board directed the contractor to proceed with the assignment which it had directed in its job decision of November 26. (Exhibit 9, p. 47.) It should also be noted that on February 26, 1958 the Board had given permission to Mr. Guess, representing appellee Montag, and Mr. Rogers to discuss the matter again

with the Board. (Exhibit 9, p. 59.) Plainly because the contractor disagreed with the Board, it had no intention of following the directive. (Exhibit 9, p. 55.) This was so even though two employer representatives on the Joint Board had visited the site of the work and were of the opinion that the directive of the Board of November 26 was proper and feasible. (Exhibit 7, pp. 55, 56, 57.) It thus appears that even after submission to the Board, and after appeal, the contractor Montag, appellee, had no intention of abiding the Board's directive and made no attempt to put it into effect. (Exhibit 9, pp. 59-64 incl.) This was so even though appellee Montag had agreed to be bound by the decision of the National Joint Board. (Exhibit 9, p. 60.)

In summary, we have the following posture of facts:

1. Appellee Montag, prior to its commencement of construction on the Ice Harbor Dam project determined that it would make the work assignment to the Iron Workers. It framed its bid for the job by determining that factor for its calculations.

2. It paid no attention to the Carpenters' submission of letters from fifty-six contractors in the jurisdiction definitely establishing that the area practice was to assign the work involved to the Carpenters. (RT p. 29, Exhibit 3, p. 4, Sec. (b).)

3. Montag refused to make any change in its assignment, even though the Iron Workers relinquished

any claim to the work in question on or before June 17, 1957.

4. Although the Iron Workers and Carpenters, appellants, came to agreement on the matter of the work involved, in Washington, D.C., on July 11, 1957, and even though it is admitted by all parties that such agreement was known to Montag, appellee refused to accede in anywise to that agreement.

5. After submission of the dispute in accord with agreement to the National Joint Board, appellee Montag refused to abide the decision of the National Joint Board of November 26, even though it was directed to do so on several occasions following the rendition of that decision. Montag appellee never did accede to the Board directive.

The testimony in the record conclusively supports the argument that what Montag refers to as the "dispute between the Iron Workers and appellants" was in fact not a dispute between those two unions; the difficulty or dispute arose and was kept alive by Montag's refusal to accept any agreement between the Iron Workers and appellants, and it was compounded by the efforts of the Iron Workers and appellants to satisfy Montag. The unions had no dispute with each other.

Because the facts conclusively establish the absence of a "jurisdictional dispute" as contemplated by the Congress in its enactment of the Act, the appellants urge reversal of the District Court.

We believe that *Penello v. Sheet Metal Workers Local Union No. 59,* 195 F. Supp. 458, is uniquely appropriate to the position of the appellants. Not only that opinion, but subsequent reasoning of the National Labor Relations Board supports the position of the appellants in the plea for reversal of the District Court and the judgments entered pursuant to its decision and findings. We agree with the National Labor Relations Board in *Highway Truck Drivers and Helpers Local 107, International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, and Safeway Stores, Inc.,* 134 NLRB No. 130, 1961, CCH, NLRB, p. 10,719, referring to Penello, supra, that ". . . Judge Wright (author of Penello) made a painstaking analysis of the statutory provisions here in issue in the light of the CBS decision. . . ." (*N.L.R.B. v. Radio and Television Broadcast Engineers Union,* 364 U.S. 573, 81 S. Ct. 330, 5 L. Ed 2d 302.)

So far as we know, no litigant has upset the reasoning or conclusion of *Penello* in any appellate court. And it is a matter of record that since the decision, the National Labor Relations Board has adopted its substance and reasoning.

In *Penello,* supra, the alleged dispute grew out of a situation which was created when the DuPont Company in Deleware undertook to expand its facilities. The key factor in the determination of DuPont was wholly economic in nature. DuPont, in order to perform certain sheet metal work, hired workers who were classified as iron workers and millwrights,

through a hiring hall. The workers lived near the plant of DuPont.

The Sheet Metal Workers Union Local 59 represented sheet metal workers in the Wilmington, Delaware area, and it viewed the expansion work of DuPont as involving essential employment of the sheet metal trade. DuPont, however, would not enter into a contract with the Local when it was approached, because the only way in which the members could be given work would be under sub-contract by DuPont with the contractor with whom the Local had an agreement or contract. It was here that essentially economic obstacles appeared.

Local 59 had contracts in the Wilmington area that required that work be compensated by the usual wage paid to sheet metal workers, plus an additional $10.00 a day travel pay, to which DuPont objected strenuously. No agreement could be reached on this issue and as a result Local 59 began picketing the operation of the DuPont Company. Picketing spread to other DuPont operations, and finally employees of some subcontractors refused to cross striking workers' picket lines. *There was no threat by any of the unions who were performing work for DuPont to strike if the work was given to the Sheet Metal Workers, nor did any situation arise which involved simultaneous threats of coercion by any other workers employed by DuPont.* As a result, charges were filed with the National Labor Relations Board by DuPont alleging that Local 59 violated the ban of Section 8(b)(4)(d) of the Labor Management Relations Act. The Board petitioned

the Court for an injunction against the action of the Local, pursuant to its long-established policy.

The Court in its discussion of the matter, went into great detail in the consideration of the legislative history of Section 8(b)(4)(d), and concluded that:

> "Nor is the legislative history of the Act of aid to petitioner, for it definitively shows that Congress intended Section 8(b)(4)(d) to reach economic coercion *only* when used to resolve disputes between competing groups of employees. . . ." (195 F. Supp. p. 469.) (Emphasis supplied.)

Consequently, the court held, there could be no place for a 10(k) hearing. If only the naked language of Section 8(b)(4)(d) be considered, then there would be little doubt that the conduct of the union violated that section of the Act, but because the section does not stand alone, and must be analyzed in conjunction with the 10(k) section, no cognizable dispute existed.

The Court held further, that because of the Congressional preoccupation with jurisdictional disputes at the time the sections involved were passed, a reading of the 10(k) section would indicate that the only dispute to be determined would be a dispute *between active, rival groups of employees,* for that which was claimed to be the particular work of each. An employer has no complaint under Section 8(b)(4)(d) unless, as the Court said, ". . . he is caught between competing forces and is 'between the devil and the deep blue' . . ." (Citing *Radio and Television Engineers,* 364 U.S. p. 575.)

Judge Wright in *Penello,* clearly points out not only the error of the petitioner in that case, but the error

of the ground upon which the court predicated liability here.

> "84. For practical purposes, petitioner has relied entirely on pre-Radio and Television Engineers NLRB rules, see e.g. note 51, supra, and accompanying text, to support his theory. He has pursued this course even when prior Board law is wholly irreconcilable with that Supreme Court decision. See e.g. note 57, supra, and accompanying text." (Footnote *Penello,* 195 F. Supp. p. 473.)

Although the District Court in the instant cases properly analyzed the evil of a jurisdictional dispute when it said: ". . . The inherent evil of a jurisdictional dispute is that the work stops, not because of any dispute over wages, hours or working conditions, but because of a dispute between two unions over which is to perform the work. . . . ," (Montag 18875, CT p. 44, 45) it fell into Montag's error in asserting that no agreement made between the unions could prevent action or recovery in a 303 action. *Penello,* supra, directly answers this contention:

> "Petitioner would have the court ignore this policy of Section 10(k) however, for his theory apparently is that no agreement between the groups of employees involved can stay the operation of Section 8(b)(4)(d) so long as the employer does not agree." (*Penello,* 195 F. Supp. 466.)

And in Footnote No. 52 at the same page, the court observes:

> "It is difficult to escape this conclusion since if all groups of employees agree on a settlement, the only dispute left to be determined is that between the picketing union and the employer."

This reasoning conforms to present day rulings of the National Labor Relations Board for it held again several months ago, as it has consistently held since *Penello,* that it had no jurisdiction to settle a dispute over work assignments between an employer and his employees. (See Local 1905, *Carpet, Linoleum and Soft Tile Layers, and Butcher & Sweeney Construction Company, Inc., Local 1905,* et al, 143 NLRB No. 39.)

A further and most appropriate excerpt from the Court's opinion in *Penello* follows:

> "The NLRB has, since the passage of the Act, construed Sec. 8(b)(4)(d) to mean 'that an employer is free to make work assignments without being subject to strike pressure by a labor organization seeking the work for its members. ***' Local 472, International Laborers' Union, 123 N.L.R.B. 1776, 1781 (1959). This literal application of Sec. 8(b)(4)(d) necessarily resulted in a substantive interpretation of Sec. 10(k) not in accord with its apparent meaning. Because the Board read Sec. 8(b)(4)(d) to be a broad grant of prerogatives to employers, the Sec. 10(k) hearing was treated simply as a procedure designed to uphold these rights. The Board would determine merely whether the picketing union was entitled to the work under a Board order, certification, or a collective agreement with the employer. If not, the Board, declining to make an affirmative award of the work between the employees involved or to consider other criteria such as the employer's prior practices, custom in the industry, and the like would simply hold the picketing union was not entitled to the work. After this perfunctory 'determination' under Sec. 10(k), the employer was free to change his mind and reassign the work, at all times protected from union retaliation by the broad language of Sec. 8(b)

(4)(d). Needless to say, assertion of competing claims by rival groups of employees was unnecessary for an unfair labor practice determination under Sec. 8(b)(4)(d) or the performance of what the Board regarded as its function under Sec. 10(k), since the emphasis upon the employer's prerogatives over work assignments rendered such a factor irrelevant."

We do not believe that *International Longshoremen's and Warehousemen's Union v. Juneau Spruce Corp.,* 1952, 342 U.S. 237, 72 S. Ct. 235, is controlling here any more than did the District Judge in *Penello.* It is plain that *Juneau Spruce, supra,* did not hold that one Congressional definition of "jurisdictional dispute" applied to 303(a)(4) in a civil case, while a totally different meaning applied to a case instituted by the Board. "Substantive symmetry" does not mean that the unfair labor practice claimed under 8(b)(4)(d) is generically, or in any other way, different when claimed to be such by a private litigant, rather than by the Board.

"Petitioner cites International Longshoremen's and Warehousemen's Union v. Juneau Spruce Corp., 1952, 342 U.S. 237, 72 S. Ct. 235, 240, 96 L. Ed. 275, as controlling here. That case arose under Sec. 303(a)(4) of the Act, a provision employing the language of Sec. 8(b)(4)(d). The Supreme Court said there, 'The fact that the union of mill employees temporarily acceded to the claim of the outside group did not withdraw the dispute from the category of jurisdictional disputes condemned by Sec. 303(a)(4).' This language is inconclusive at best, for it merely says the mill employees did not dispute the longshoremen's claim 'temporarily.' Moreover, Juneau Spruce, decided prior to Radio and Television Engineers, arose under Sec. 303(a)(4) and apparently was based on the

theory that the employer's assignment was decisive. It was, therefore, an important precedent argued before the Supreme Court in the Radio and Television Engineers case. The Court, however, did not consider it controlling and disposed of it simply by saying a 'substantive symmetry' between the two approaches to jurisdictional disputes is not required. It further stated the effect of a Sec. 10(k) determination upon an action under Sec. 303(a)(4) was an open question not presented in the case. In view of some of the language in Juneau Spruce indicating a Sec. 10 (k) determination would have no effect on Sec. 303 actions, the vitality of that latter decision may now be open to question." (195 F. Supp. 468.)

In a discussion and analysis relating to Sections 8(b)(4)(d) and 10(k) of the Labor Management Relations Act, published in 12 *Labor Law Journal,* p. 1163, under the title "Jurisdictional Disputes in the National Labor Relations Board," we find the following:

"Finally, the Court rejected the Board's contention that the lower court's interpretation of Section 10(k) would be inconsistent and in conflict with Section 303(a)(4). The Board asserted that Section 303 actions do not permit a union to defend against actions for damages on the basis that the union is entitled to the work per practice, and/or custom, and that accordingly, 'substantive symmetery' between Sections 8 (b)(4)(d), 10(k) and 303(a)(4) must be preserved. The Court deftly opined: 'This Court has recognized the separate and distinct nature of these two approaches to the problem of handling jurisdictional strikes. *International Longshoremen's Union v. Juneau Spruce Corp.*; 342 U.S. 237. Since we do not require a 'substantive symmetery' between the two, we need not and do not decide what effect a decision of the Board under Section

10(k) might have on actions under Section 303 (a)(4).'

"Thus, the Court did not decide and left unanswered what effect, if any, a 10(k) decision might have on a 303(a)(4) action for damages." (p. 1187).

In concluding, the author states:

"The court has now plainly and irrevocably stated that Sections 8(b)(4)(d) and 10(k) are integral and interdependent elements of a Congressional intent to foster the settlement of jurisdictional disputes and that the Board's authority extends to this accomplishment. Further it appears that if conduct is within the prohibition of 8(b)(4)(d) it must present a 'dispute' within the meaning of a Section 10(k) hearing; conversely, if there is no 'dispute' which can be determined by the Board under Section 10(k) there can be no Section 8(b)(4)(d) prohibition. Finally, the language of the court in *Juneau Spruce* indicating the independent effect of a Section 10(k) determination on a Section 303 action for damages now seems of reduced significance."

The National Labor Relations Board had occasion to consider *Penello,* supra, shortly after it was decided. *(Highway Truck Drivers and Helpers Local Local* 107, *International Brotherhood of Teamsters, Chauffers, Warehousemen and Helpers of America, and Safeway Stores, Inc.,* 134 NLRB, No. 130, 1961, CCH, NLRB p. 10,719). Approximately a year prior to this decision the Board had issued a decision and determination of the dispute in the same proceeding. It had found at that time that the respondent was engaged in picketing Safeway with the object of forcing or requiring Safeway to reassign certain truck

driving work from Safeway employees who were members of Local 639 and 660 to other Safeway employees who were members of Local 107. The Board had held that the dispute was cognizable under Section 10(k) of the Act, and had pursuant thereto made a determination.

Upon Safeway's petition to reopen the proceedings following the decision of the Supreme Court in the *Radio and Television* case, supra, the Board reversed itself, and in its opinion recited:

> "As we read it, the Supreme Court of the United States in the CBS case not only rejected the type of determination made in that case and in the instant case, but rejected also the Board's underlying view of the scope and interplay of Sections 8(b)(4)(d) and 10(k). Thus, although the facts in the instant case, as heretofore found might be deemed to fall within the literal terms of the Section 8(b)(4)(d) proscription, the Supreme Court noted in CBS that Section 8(b)(4)(d) does not stand alone but is supplemented by Section 10(k). The two provisions must be read together. So read, the provisions apply as the Supreme Court noted to disputes between 'two or more employee groups claiming the right to perform certain work tasks . . .' 364 U.S. at 586.
>
> *"The thrust of the CBS decision was, to be sure, directed at the Board's misconception of the kind of determination required by Section 10(k). But, in terms, the Supreme Court said it was 'the Board's responsibility and duty to decide which of two or more employee groups claiming the right to perform certain work tasks is right and then specifically to award such tasks in accordance with its decision'* 364 *U.S. at* 585. *Implicit in this directive is the proposition that Sections 8(b)(4)(d) and 10(k) were designed to resolve*

competing claims between rival groups of employees, and not to arbitrate dispute between a union and an employer when no such competing claims are involved. Certainly it was not intended that every time an employer elected to reallocate work among his employees or supplant one group of employees with another, a 'jurisdictional dispute' exists within the meaning of the cited statutory provisions. (Emphasis supplied.)

"The interpretation which we put upon the CBS decision is cogently reinforced in *Penello v. Local* 59, *Sheet Metal Workers* (B.C. Del.; June 21, 1961) in which Judge Wright made a painstaking analysis of the statutory provisions here in issue in the light of the CBS decision. Judge Wright, too, concluded that the application of Sections 8(b)(4)(d) and 10(k) was confined to disputes 'between rival groups of employees' and not to disputes between an employer and a union as such."

See also:

Brotherhood of Teamsters and Auto Truck Drivers Local 70, *International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America, Inc. and Hill's Transportation Company,* 136 NLRB No. 93, 1962, CCH, NLRB 11,117;

International Brotherhood of Electrical Workers, Local 292 *(Franklin Broadcasting Company)* 126 NLRB 1212;

Sheet Metal Workers Local 272 *(Valley Sheet Metal Company)* 136 NLRB 1402, 1962, CCH, NLRB 11,143;

Local 373 *United Association and Carlton Bros. Co.,* 137 NLRB No. 80, 1962, CCH, NLRB 11,322;

Local 1905 *Carpet, Linoleum and Soft Tile Layers and Butcher & Sweeney,* et al, 143 NLRB 39, 1963, CCH, NLRB 12,437.

If there is no "dispute" as contemplated under the jurisdictional or forced assignment clause of the Labor Management Relations Act, then there can be no Section 8(b)(4)(d) prohibition which gives rise or justification to a Section 303 action for damages. Certainly any claimed significance of the court's language in Juneau Spruce, supra, has been demolished in the *Radio and Television* case, supra, along with *Penello,* supra, and the Board's opinions and reasoning subsequent thereto.

We do not believe, that it is incumbent upon us, nor is it now incumbent upon the Court, to decide what effect the decision of the National Labor Relations Board under a Section 10(k) hearing would have been, had it been held in *Penello,* supra, in its relation to a subsequent action brought under Section 303(a)(4). The significance, however, of the nonexistence of a dispute in this case under the reasoning and definition applied to 8(b)(4)(d) is paramount, for here it has been shown that if there was a continuing dispute of any kind, then from its beginning right on through to the refusal of Montag, appellee, to accept the award of the National Joint Board for Jurisdictional Disputes, it was initiated and continued as an employer-union economic controversy by Montag. It was therefore not a dispute redressible by a private employer litigant in a 303 action. (See Dissent in *Sheet Metal Workers International and Valley Sheet Metal Co.,* supra.)

AGENCY OF LOCAL 1849 FOR THE INTERNATIONAL

Although the District Court in its opinion, following the hearing and argument on whether or not Local 1849 acted as an agent of the International, discussed primarily the case of *International Brotherhood of Teamsters v. United States,* 275 F. 2d 610 (4 cir., 1960, certiorari denied 362 U.S. 975, 1960), it held that it would prefer to base its findings on the theory that the International encouraged, induced, or participated with, the Local 1849 in the commission of the tort which was charged. (See No. 18875, opinion of the Court, Montag, CT pp. 47, 48, 49.)

We think that this Court in *National Labor Relations Board v. Mountain Pacific Chapter,* 270 F. 2d 425, disapproved of any ipso facto conclusion which is based upon the existence of written provisions in a document, whether it is a constitution or a contract.

The pretrial deposition of H. H. Brown, business agent for Local 1849, showed that he had been business agent for the Local since June 1951, and that his salary was entirely paid by the Local and that he held an elective Local office. (See exhibit 4, deposition of Brown, pages 2, 3.) Brown testified that the only thing by way of instruction that he had ever received from the International was word that a representative would be assigned. He stated that "is usually the letter I would get back from the International, would be just a short wire that Representative Hank Hiller or Sleeman, whoever the Representative happened to

be, would be assigned in," and "that is typical at least of what we got from them." (Deposition, exhibit 4, pp. 15, 16.) Brown testified that what he was trying to do was put into effect the area practice. He said that the disputed rigging was claimed by the Carpenters as the tool of the Carpenters' trade, and that generally Carpenters claimed and were given their own rigging as the tool of the trade and did not take the position that rigging as such was the work of Carpenters. (See exhibit 4, deposition of Brown, p. 17.) It is apparent that Brown had little, if any, correspondence or contact with the International Union (exhibit 4, p. 20).

It also appears that Hiller, Sleeman, Hankins, International Representatives, so-called, were merely "trouble-shooters" for the International. They are not organizers and they do not affirmatively carry on any Carpenter organizational work at all. When Hiller first had any contact with the dispute or work stoppage in June, he was informed by Brown of Local 1849 that the Carpenters had been discharged; that no carpenters were on the payroll of the company. Hiller testified that he was therefore at a loss as to how he could settle any dispute. It appears too that Hiller, in his trouble-shooting capacity, was able to settle the dispute (see exhibit 5, deposition of Hiller, p. 27; exhibit 38). Hiller testified that the position of the International was that all disputes should be processed through normal channels, because it was part of the agreement, and it was part of the jurisdictional procedure of the International.

Mr. Sam Pickel, the local Iron Workers representative, held meetings with Mr. Brown, but he had no written instructions from his International Union (Deposition of Pickel, exhibit 8, pp. 9, 10). He testified that Hiller of the Carpenters, and George Holland of the Iron Workers, came to Ice Harbor Dam because of the work stoppage, but thought they had arranged for the prevention of any further disputes, and it appears from his testimony that independent Local action precipitated disputes. As he says, Brown of the Carpenters, stated to him: "Well, it looks as though we can't agree so we might as well get our people in here and resolve this thing" (Deposition of Pickel, exhibit 8, pp. 20, 21; pp. 13, 14). It even appears that the Internationals went to the extent of locking the business agent out of the room. The business agent referred to could only be Brown of the Carpenters, and Pickel's deposition further shows that "Hiller stated at this time that the business agent of the Carpenters, H. H. Brown, would not return the men to work until settlement had been made" (Deposition of Pickel, exhibit 8, pp. 27-29).

We suggest there is no further testimony which throws any light on the question of agency other than the participation as indicated, of the International representatives in the attempt to settle the controversy. The fact that the International met on the International level certainly does not indicate a participation and acquiesence in a tort, if a tort was committed by Local 1849.

In *Local* 1016 *United Brotherhood of Carpenters*

and Joiners of America, AFL-CIO, and Booher Lumber Co., 117 NRLB 120, the Board held that as a result of the International's ratification, it became liable for the unlawful conduct found. In that case, as in this, the International came into the picture when the general office was called upon for assistance, and assigned one of its representatives to assist in settling the dispute. In *National Labor Relations Board v. Local* 1016, *United Brotherhood of Carpenters and Joiners of America, AFL-CIO, et al,* 273 F. 2d 686, the Second Circuit properly found no liability with respect to the acts of the International, and denied enforcement of the Board order.

> "The Board found that the Brotherhood representative, Lawyer, did nothing effective to break the stalemate on the installation of the non-union staircase and attributes this to what might be termed effective inaction amounting to a ratification of the Brotherhood of the unlawful conduct of the union in Hawkins. These are conclusions that are scarcely warranted by the facts and the law. Lawyer did participate in the May 23 conference, but there is no sufficient proof that he participated in, directed, or ratified the violation of Sec. 8(b)(4)(a). Accordingly, the Board's petition for an order of enforcement against the Brotherhood must be denied."

If the International is to be held liable it must be on the principles of the law of agency, and the rule is universal that the burden of proof is on the party asserting an agency relationship, both as to the existence of the relationship and the nature and extent of the agent's authority. *International Longshoremen's and Warehousemen's Union v. Hawaiian Pineapple Co. et al,* 226 F. 2d 875, CA 9.

and see:

United Mine Workers v. Patton, et al, 211 F. 2d 742, CA 4;

United Construction Workers, et al, v. Hayslip Baking Co., 233 F. 2d 872, CA 4;

Sunset Line &Twine Co. and International Longshoremen, et al, 79 NLRB 207.

The language in *Webb v. National Labor Relations Board,* 196 F. 2d 841, at p. 846, is appropriate:

> "It can readily be seen that the Board's conclusion that on November 15 agreement was entered into is based on inferences and suspicions drawn from remote circumstances, and it is in conflict with the direct testimony on the point. As a further example, the trial examiner states in his opinion that, 'Brown (Carpenters' foreman) also testified that although Webb and the union had not set down and entered into any agreement for the hiring of only union men, it was "just understood that they would be." That the trial examiner should call attention to such an insignificant statement is surprising, but it is more surprising that he evidently gave it some weight. The statement is not only hearsay, but is apparently hearsay founded on rumor'."

And at page 847:

> "Substantial evidence is more than a scintilla and must do more than create a suspicion of the existence of the fact to be established."

The testimony of the union representative to which reference has been made could not be said to establish agency. The testimony of employer representatives went solely to what they call the implication of the words or acts of the union representatives. Certainly the effort of the International Union to try to settle

the dispute after Local Union 1849 elected on its course of action does not create the agency relationship. The International was never consulted, nor did it have knowledge concerning strike difficulty until it was directly or indirectly notified that Local 1849 was in dispute with the contractor. The facts here are clearly distinguishable from the facts submitted, and in part relied upon by the District Court, to-wit, *International Brotherhood of Teamsters, etc. v. United States,* 275 F. 2d 610. In that case the agent Rutledge was in an entirely different position that business agent Brown of Local 1849. Brown was without any of authority, direct or implied, that was attributed to Rutledge.

Appellants urge that this Court require some substantial proof of implementation by the appellants here of any provision of the International Constitution, that it is claimed establishes a relationship of agency between the International and Local 1849.

APPELLANTS WERE ENTITLED TO JUDGMENT AGAINST MONTAG

The Court, after allowing damages to appellee Montag found that appellants were entitled to mitigation of those damages, and therefore reduced the damages against appellants by $40,000.00, which the Court found to be a reasonable amount in mitigation of damages because of Montag's refusal to accept the award of the National Joint Board. (Montag, No. 18875, CT p. 82, 83; exhibit 75, RT pp. 852-872, incl., RT pp. 1151-1154, incl., RT pp. 1198-1201, incl.)

While we believe that the Court was correct in law and in fact in granting appellants some relief by way of mitigation in offsetting Montag's damages by $40,000.00, we urge that Montag was not entitled to any damages to begin with, and that appellants should have been given an award by way of a judgment for damages, rather than by way of mitigation of damages allowed Montag.

Appellants contend that the decision of the National Joint Board awarding certain work to the appellants, which decision was disregarded by Montag, was a valid and binding determination of the dispute. It is the further contention of appellants that the decision of the National Joint Board required appellee Montag to assign the work directed by the Board to the members of Local 1849, and that Montag's failure to do so entitled appellants to recover damages based upon the collective bargaining contract described in paragraph 9 of the pretrial order; the damages to be measured by the wages which otherwise would have been earned by members of Local 1849, if the work had been assigned as directed. (Montag, No. 18875, CT p. 33, and p. 39, exhibit 1.)

The Court expressed doubt about its right to enforce the rights of individual union members which it thought to be "uniquely personal," and therefore granted relief to the appellants for the disregard by Montag of the award of the National Joint Board, by a mitigating award of $40,000.00. The accountants' report (exhibit 75) relating to the appellants' claim and cross-complaint indicates that the basis of the re-

port was solid and that the claim was not conjectural or speculative. As the above-quoted references indicate, the Court was also of that opinion. (See reference to record, supra, p. 48.) Appellants proved the fact of damage in excess of nominal amounts, and therefore the Court could, and should have, under the authority of the cases applicable thereto, entered judgment for appellants.

Prior to argument on damages which was held in Seattle on December 18 and 19, 1962, (RT 1135) appellants contended that the award of the National Joint Board was as enforcible as an arbitration award, and that appellants were entitled to judgment. The cases relied on included *Textile Workers Union of America v. Cone Mills Corp,* 268 F. 2d 920, CA 4, Cert. den. 361 U. S. 886; *A. L. Kornman Co. v. Amalgamated Clothing Workers,* 264 F. 2d 733, CA 6, Cert. den. 361 U. S. 819; *United Steel Workers of America v. Enterprise Wheel and Car Corp.,* 363 U. S. 593.

Montag appellee, and the other appellees, contended that the award could not be enforced by reason of *Employees v. Westinghouse Corp.,* 348 U. S. 437.

During argument appellants proposed that *Smith v. Evening News Assn.,* 371 U. S. 195, which had just been decided, determined the issue in the appellants' favor. The contention is urged now by appellants. In *Smith v. Evening News,* supra, the Supreme Court spoke as follows:

> "However, subsequent decisions here have removed the underpinnings of Westinghouse and its holding is no longer authoritative as precedent . ."

And

> "*Textile Workers v. Lincoln Mills,* 353 U. S. 448, has long since settled that Sec. 301 has substantive content and that Congress has directed the courts to formulate and apply Federal law to suits for violation of collective bargaining contracts. 'There is no constitutional difficulty.'" and " 'Sec. 301 is not to be given a narrow reading.' "

And

> "The concept that all suits to vindicate individual employee rights arising from a collective bargaining contract should be excluded from the coverage of Sec. 301 has thus not survived. The rights of individual employees concerning rates of pay and conditions of employment are a major focus of the negotiation and administration of collective bargaining contracts. Individual claims lie at the heart of the grievance and arbitration machinery, are to a large degree inevitably intertwined with union interests and many times precipitate grave questions concerning the interpretation and enforcibility of the collective bargaining contract on which they are based. To exclude these claims from the ambit of Sec. 301 would stultify the Congressional policy of having the administration of collective bargaining contracts accomplished under a uniform body of federal substantive law. This we are unwilling to do."

We urge that to deny damages to the appellants where a breach of collective bargaining agreement has been found, would in fact stultify the whole Congressional policy, and would permit at will, the deliberate violation of contracts by employers who might be tempted to rely on the sterility of the law to enforce an obligation in damages against them.

APPELLEES ARE NOT ENTITLED TO DAMAGES

(A) Montag:

Montag, having made a determination of work assignment in its bid and prior to any construction work on the Ice Harbor Dam was committed to disregard any determination of the rights of employees or unions so far as their work assignments might be concerned. Montag created the very situation that resulted in *its* dispute with the appellants. And certainly the record is replete with proof that no disagreement existed between the Iron Workers and appellants when the Iron Workers conceded any claim at all to the work involved on or about the 16th or 17th of June, 1957. Montag, as the record discloses, not only *admitted* that the unions were in agreement, but in one part of the argument during trial *contended* that the unions were in agreement. (RT p. 893, and see infra p. 53.) The record also is definite that there was no other dispute involved as to any other craft. Mr. Montag, himself, made this very plain. (RT p. 903.)

If agreement existed in July of 1957 as the result of consultations at and with the National Joint Board for the Settlement of Jurisdictional Disputes, and that agreement was known, as it was conceded to be by Montag, then it was Montag's refusal to deal with appellants that precipitated and continued a dispute. Whatever remedy Montag might have had under law, certainly it did not have an action in damages under

the Act, as and for a jurisdictional dispute between Iron Workers and appellants which placed it "between the devil and the deep blue . . ."

The claim of "no jurisdictional dispute" is concurred in by Montag. In a memo to the District Court it made its position plain and although the memo is not in the record, we are hopeful that Montag will approve the assertion made therein:

> "It appears from the testimony that whatever dispute may have existed between the unions was settled on July 17, 1957, by an agreement to give the rigging of wooden forms to the Carpenters union. (Mitchell deposition, exhibit 9, pp. 15, 30-31.) The agreement was reaffirmed on November 14, 1957. (Exhibit 9, p. 31.) The action taken by the Board on November 27, 1957, was pursuant to the request of both unions on November 18, 1957, that the contractors be compelled to put their agreement into effect. (Exhibit 9, pp. 28-29.)"

And

> "The procedure referred to is set forth in exhibits 2 and 3. Examination of these exhibits, as well as the language of the contract itself reveals that the Joint Board was authorized to decide only conflicting jurisdictional claims between unions. It was not authorized to settle disputes between a union or unions, on the one hand, and the employer, on the other. Since no dispute existed between the unions on November 27, 1957, the Board had no jurisdiction to act." (Plaintiffs' brief on remaining issues, pp. 31, 32.)

The awards of damages were based in great part on the methods employed and the award made in *Morrison-Knudsen Co., Inc. v. International Brotherhood of Teamsters, Inc.,* 270 F. 2d 530, 9th circ. Appellants

urged during the trial, and urge in this appeal, that the damage award to Montag here was of such conjectural and speculative character that it should not prevail.

The Court denied any recovery to Montag of claimed interest or profit. The items allowed may be found at Montag No. 18875, CT pp. 70, 71. The claims made by Montag may be found in exhibit 68 with attachments. The largest item allowed by the court to Montag was an amount of $77,390.00 as and for reasonable rental value of equipment or idled equipment. (Montag 18875, CT p. 71.) The principal argument directed against the allowance made by the court may be found in exhibit 74, commencing at page 16. This report is the report of appellants' accountants and auditors made after an examination of records and figures submitted to such accountants by Montag. (RT 765-782.)

In addition there is other argument which we desire to urge. First, the factual situation here in respect to idled equipment is considerably different than in the ordinary case where the idling of the equipment prevents its use in an income operation. The actual situation of Montag at Ice Harbor was such that there was never a time during the dispute that it could use the equipment for which it was awarded judgment, for rental on any other project, except the Ice Harbor project. Montag would not, even if solicited, have rented the equipment, for it intentionally kept the equipment at the project for many months after completion of Montag's particular part of the whole Ice

Harbor contract. Some of that equipment was then sold and the rest of it was transferred to the John Day project—a dam in the State of Oregon.

The record establishes that there were certain other phases of work other than that in the Montag contract, to be completed at Ice Harbor Dam, particularly what was referred to as the North Shore Contract. (RT 424.) Montag bid on the North Shore Contract the work under which was to be let some time in 1959. Montag also bid on the John Day Dam, which work was to commence in December of 1959. During the period of time waiting for results of the bid, Montag kept its machinery at the Ice Harbor Dam site in expectation of getting a further contract there upon which its machinery would be used. If there was any delay occasioned by the cessations of work, those cessations were not a cause of the loss of any rental to Montag, for even had it used its equipment during the idled periods and finished the project on time, it would have retained its equipment on the dam site, pending the result of its attempts to secure contracts on Ice Harbor and at John Day, which did not commence until December 1959. (RT 423-434.)

Reference to exhibit 74 discloses that the basis of charges made by Montag was artificially expanded. Montag used estimated new replacement value, and as exhibit 74 points out, the Northwest 80D Crane used for rental computation was valued at a replacement cost of $72,000.00, although it cost Montag only $20,000.00. The further effect of this method of computation shows that the rental of some of the items

computed with an over-estimate of replacement cost, exceeded the entire actual cost of the equipment of the contractor. (See pp. 16, 17 of exhibit 74.) It appears obvious that the whole basis of the computation of Montag was theoretical rentals based on estimated replacement costs. It appearing that there is no possible basis for claiming charges inasmuch as the equipment had to be kept at the Dam, it further follows with certainty that no losses accrued for idled equipment. Montag's intent in its bidding required it to retain its equipment at Ice Harbor Dam many months after the contract completion, even if it had not been delayed.

As to all of Montag's claims, its witness Burton M. Smith testified:

> "This is an arithmetical computation which is accurate." (Exhibit 68, p. 7.)

The Court also made a substantial award of $35,-225.75 to Montag as and for what it claimed was efficiency loss. Montag attempted to prove a loss of efficiency by claiming that appellants' unlawful conduct resulted in a loss which it claimed was equivalent to the project payroll period of one week (5 days). (See exhibit 70, p. 7, RT 482-490.) The testimony, however, indicates that the claim of efficiency is wholly conjectural. Montag attempted to establish, as reference to the record indicated, that its efficiency loss was five days because it was so found by some of its officials. There was a complete lack of any showing that there was any difficulty in getting men back to work, —in

fact the same men came back who had been working before the cessation, —or that there was any let-up in the pouring of the concrete or other work. In this respect the case is wholly dissimilar from *Morrison-Knudsen* (supra) where the work stoppage involved an elapsed time of approximately two and one-half months. Neither under the theory of *Morrison-Knudsen* where plaintiff showed that its costs materially increased after its shut-down, or in accord with substantive Washington law did Montag prove any loss of efficiency. Not only that, having asked for damages on every conceivable part of its operation, it cannot duplicate its claim by an assertion of fictitious efficiency loss.

In the case of *Curtis, et al, respondents, v. Puget Sound Bridge and Dredging Company, appellant,* 133 Wn. 323, 233 P. 939, the court established standards of proof:

> "The next reason given for reversal is that no damages were proved. This contention can be briefly disposed of by the statement that there is abundant testimony, which the jury had a right to believe, that the efficiency of the respondents' workmen was greatly reduced by being compelled to work in the mud and water, that many thousand extra feet of lumber were made necessary, the material had to be handled in the slime, and that tools and jacks were lost by reason of these conditions. Under such a record it cannot be successfully claimed that no damages were proved."

The basis of the court's opinion in *Carpenters Union Local* 131 *v. Cisco Construction Co.,* 266 F. 2d 365,

9th circ., adds nothing to the strength of Montag's claim:

> "The defendants produced testimony to the effect that the whole loss was due almost entirely to bad management. But Cisco had a version which placed the fault of almost all of the delay on the defendants. Its witnesses said Cisco was hurt by difficulties and delays in getting men and by getting men unskilled for jobs they were undertaking to do. Then there was an unusually high turnover of men due, it said, to necessity to discharge many men who proved unsuitable. The only real means of getting men was by advertisements in newspapers. The trial court was unwilling, on the evidence, to trace all of the losses and delays to the defendants. But believing that there was substantial damage chargeable to the defendants and announcing that it found the damage from defendants' acts to be 'not less than $75,000.00,' judgment was therefore ordered in that amount."

We find that there is no proof submitted by Montag that in anywise conforms to any of the factual situations considered by courts in supporting an efficiency loss, and we therefore urge that absent proof, no judgment should have been entered in respect to that claim.

The court also made an award of $30,007.56 to Montag for overhead salaries. (See Montag 18875, CT p. 70.) This amount allowed was practically the entire claim made by Montag.

It was admitted, and we expect no contradiction to the proposition, that at the time of the June shutdown the entire work force was moved to another area and performed other work than on the particular phase of the work that it had been handling prior to

the cessation. Obviously, the overhead salaries and administrative expense would have to continue in any event, because at one time or another during the completion of the contract, the work performed during the cessation would have had to be completed. Also, it goes without saying that this argument applies to all of the other factors which are involved in the computation of the damage claims by Montag.

Again the basic objection to the items of claim heretofore discussed and to the balance of the items is made because all of them were theoretical computations. Montag made no attempt to show that there was any money loss on its contract and it produced no evidence of any loss to the joint venture.

The proof in this case is the same type of proof which was disapproved by the 6th circuit in *Flame Coal Co. v. United Mine Workers of America,* 303 F. 2d 39. In that case, as in this, there was testimony that the schedule had been worked out which purported to compute profits lost by companies in the concellation of orders. The court held that arithmetical computations, so-called, are not valid proof.

(B) Curtis:

The court was obviously not satisfied with the proofs in the Curtis case, and certainly the appellants were not. (RT 1176, 1177, 1183.) Exhibits 6 and 7 were offered as the testimony of appellants' witness without objection by Curtis, and the witness for appellants who composed the exhibits was submitted for cross-examination. (RT 1007, 1008.)

The witness concluded that no reasonable, accurate determination of actual costs or losses attributable to the work stoppages could be ascertained beyond doubtful conclusions. Curtis records were composed hastily and did not disclose any information as to the dates or length of the time of the work stoppages. In excess wage claims claimed by Curtis, it appeared that during the stoppages men were engaged in repair and maintenance and there was no accurate tabulation to be examined. It was impossible to find out whether any equipment, which was listed and under which claim was made by Curtis, was actually on the Ice Harbor job during the periods in question. Equipment for which rentals were claimed had been almost completely depreciated and Curtis had been carrying on other jobs at the same time which necessitated the use of his equipment. (See exhibit heretofore, and RT 999-1000.)

Appellants were required to make two reports with respect to the Curtis claim, it having been revised after the first claim of Curtis had been presented. (See exhibits 6 and 7.) Both of these exhibits having been admitted as the testimony of the appellants, it clearly appears that the amendments to claims submitted by Curtis were completely theoretical. We urge that the rule which permits assessment of damages when the fact of damage is established cannot apply to this claim, when it has been determined that the claim has been constructed wholly out of theory, and without a basis in actual values. (See *Flame Coal,* supra.) Certainly the rule permitting the finding of damages, if the fact of damage is established, does

not permit a claimant to theorize without a foundation in fact from which a reasonable proposal can be advanced.

(C) Holman:

No record reference we believe is necessary to establish agreement between appellants and appellee Holman that its contract was essentially, if not almost exclusively, a labor contract. In other words, its materials, steel, etc. were furnished, and its duty was to handle the fabrication and installation.

Initially we would direct the court's attention to exhibits 7 and 8 which are accepted as the testimony of appellants' witness. (RT 1050, 1051.) Practically no data was ever submitted to appellants as a basis for the Holman claim. And the proof for items which were claimed was not kept in Holman's records, nor was the proof in a condition that could be used to verify any of the items claimed by Holman. (RT 721, 722.) The basis of Holman's claim was nakedly hypothetical. Not only that, the only submitted data was inaccurate as appears from exhibit 8. The reconstruction, so-called, by Holman's witness was related to a contract of $1,569,000.00, while the claim itself was rested wholly on the reinforcing steel contract where the total sum was about one million. (RT 1123.) The entire basis therefore of the only estimate provided to appellants was 37½% to high on that factor alone.

The court never was able to understand the basis of the claim made by Holman. Examination of the witness Williams for Holman illustrates without argu-

ment the complete inadequacy of the basis of claim. (RT 1089-1099.)

> "A. Mr. Etter, that is a series of hypothetical questions and . . .
>
> "Q. (Interposing) Isn't your particular theory here, isn't that hypothetical? Isn't this a hypothetical theory you have here?
>
> "A. Any theory is hypothetical, Mr. Etter.
>
> "Q. Yes; have you done cost accounting.
>
> "A. Yes.
>
> "Q. Now, wouldn't it have been easy, if you were going to establish damages, to establish what your cost was for your operation immediately prior to work stoppage and then determine what the cost was immediately after the work stoppage?
>
> Wouldn't that have been the way to show any lack of efficiency by cost rather than theory?
>
> "A. I think that had any of the plaintiffs anticipated all the ends to which this results, they would have called in a fleet of accountants then and changed their entire normal procedures to—that would have been advantageous. (RT 1097-1098.)

The best expression or appraisal of proof here is found in the statement of the court:

> "THE COURT: Gentlemen, I have examined the evidence in this case, particularly the exhibits, and have read the testimony and I am—and I find that there has been some damage suffered based upon the testimony of Mr. Ronfeld and Mr. Holman.
>
> "I am utterly unable to determine from the evidence presented and the exhibits presented what the damage actually is.

> "Therefore, the burden being upon the plaintiff, I must find against the plaintiff and allow no damages.
>
> "Due to the fact that there was some damages I will not allow costs to either side.
>
> "I have made a very careful effort to try to interpret the exhibits and the theory of the plaintiff and to arrive at some amount of damage with a reasonable degree of certainty and I am unable to do so." (RT 1187-1188.)

The Court indicated before finally making an award to Holman of $10,000.00 that it still could not determine the theory of Holman's presentation. It is on this basis that we urge a reversal of the entry of judgment for Holman. (RT 1203, 1207.)

CONCLUSION

We respectfully submit this case to the court in a belief shared by persuasive authorities that no basis of action existed under the Act for which judgment was entered. The order of the District Court should be reversed and the judgment set aside, and the appellants should be awarded damages against Montag in the sum of not less than $40,000.00. In any event, the proof of damages made by appellees was such that the awards should be set aside or materially and substantially reduced.

Respectfully submitted,
R. MAX ETTER,
Attorney for appellants.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

R. MAX ETTER

APPENDIX I

In the District Court of the United States for the Eastern District of Washington Southern Division

C. J. MONTAG & SONS, INC., a Washington corporation; CARL M. HALVORSON, INC., an Oregon corporation; AUSTIN CONSTRUCTION CO., a Washington corporation; BABLER BROS., INC., an Oregon corporation; and MCLAUGHLIN, INC., a Montana corporation,

Plaintiffs,

vs.

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA (AFL-CIO); CARPENTERS' LOCAL 1849, United Brotherhood of Carpenters and Joiners of America; WASHINGTON STATE COUNCIL OF CARPENTERS; and COLUMBIA RIVER VALLEY DISTRICT COUNCIL OF CARPENTERS,

Defendants.

CIVIL ACTION No. 1274

PRETRIAL ORDER ON LIABILITY ISSUES

(1) A pretrial conference in the above-entitled action was held between the parties and counsel under the direction of the court on the 7th day of April, 1960. Plaintiffs appeared by Manley B. Strayer, James P. Rogers and Walter J. Robinson, their attorneys, and defendants appeared by R. Max Etter, their attorney.

(2) It is agreed among the parties, and it is hereby ORDERED that this pretrial order shall supplement the pleadings herein, and the pleadings shall be deemed to be amended to conform herewith.

(3) It is further agreed among the parties, and it is hereby ORDERED, that the issue as to amount of damages sustained by plaintiffs be, and the same hereby is, segregated for separate and later hearing and determination by the court in the event the court shall hold that liability exists.

(4) As hereafter more particularly set forth, the parties are in dispute as to whether plaintiffs violated a duty to defendants in failing to place in effect a decision of the National Joint Board for Settlement of Jurisdictional Disputes, dated November 27, 1957, and whether, based thereon, defendants are entitled to recover on their cross complaint damages based upon the collective bargaining contract described in Paragraph 9 and measured by the wages which might otherwise have been earned by members of Local 1849. It is agreed among the parties, and it is hereby ORDERED, that in the event the court shall hold that damages measured by such wages are recoverable in this action, then in such event the issues as to whether such violation by plaintiffs occurred and the amount of such damages by wage loss shall be, and the same hereby are, segregated for a separate and later hearing and determination by the court.

(5) It is agreed among the parties, and it is hereby ORDERED, that in the event the court should hold that defendants' Contention No. 2 (breach of contract) would, in the circumstances of this case, constitute a defense to this action, then in such event the issue as to whether such breach occurred shall be segregated for separate and later pretrial and hearing and determination by the court.

STATEMENT OF THE CASE

This is an action by plaintiffs against the defendants under Section 303(b) of the Labor-Management Relations Act, 1947, 29 U.S.C.A. Section 187(b), hereinafter called the "Act," alleging that defendants have engaged in, and have induced and encouraged plaintiffs' employees to engage in, a concerted refusal to perform services for plaintiffs, otherwise termed a strike, an object of which was to force and require plaintiffs to assign the rigging of wooden forms to members of defendant Carpenters' Local 1849 rather than to members of Iron Workers Local 14, to whom said rigging work had been assigned, in defiance of Section 303(a)(4) of the Act. Plaintiffs seek damages in the sum of $514,200, and attorneys' fees of $15,000, plus costs.

By cross complaint, defendants seek enforcement of an alleged award of the National Joint Board giving the work in question to the employees of plaintiffs who were members of the Carpenters Union and denying it to the employees of plaintiffs who were members of the Iron Workers Union.

AGREED FACTS

1. When used herein:

(a) "Carpenters International" means defendant International Brotherhood of Carpenters and Joiners of America (AFL-CIO), an international labor organization;

(b) "Local 1849" means defendant Carpenters' Local 1849, United Brotherhood of Carpenters and Join-

ers of America, a local labor organization;

(c) "Iron Workers International" means International Association of Bridge, Structural and Ornamental Iron Workers Union (AFL-CIO), an international labor organization;

(d) "Local 14" means Iron Workers Local 14, International Association of Bridge, Structural and Ornamental Iron Workers Union, a local labor organization;

(e) "Joint Board" means the National Joint Board for the Settlement of Jurisdictional Disputes, a private entity created by agreement between organizations of employers, including plaintiffs, and labor organizations in the construction industry to assist in the settlement of "jurisdictional disputes," that is, controversies over the assignment of work tasks by employees to members of one labor organization rather than to members of another labor organization.

(f) "Rigging" or "rigging forms" means the hooking and unhooking of forms of both wood and metal which are elevated into place in order to comprise the outer and inner shell of portions of the structure of a dam, into which concrete will be poured, to be removed after the concrete has been sufficiently cooled and hardened that it may stand alone without the support of forms. "Rigging" also includes, in many or most cases, signalling to the operator of the crane (used to lift forms into place) that the forms are secured for elevation into place where they are to be taken, and that the form after elevation has been unsecured from the crane mechanism.

2. Defendants Washington State Council and Columbia River Valley District Council of Carpenters were not engaged in the activities complained of in the complaint and may be dismissed from this action without prejudice and without costs.

3. Plaintiff C. J. Montag & Sons, Inc., is a corporation organized under the laws of the State of Washington, with its principal place of business at Seattle, Washington; plaintiff Carl M. Halvorson, Inc., is a corporation organized under the laws of the State of Oregon, with its principal place of business at Portland, Oregon; plaintiff Austin Construction Co. is a corporation organized under the laws of the State of Washington, with its principal place of business at Seattle, Washington; plaintiff Babler Bros., Inc. is a corporation organized under the laws of the State of Oregon; and plaintiff McLaughlin, Inc. is a corporation organized under the laws of Montana, with its principal place of business at Great Falls, Montana. All of the plaintiffs, whether or not organized under the laws of the State of Washington, are qualified to do business in said state, and have paid all license fees and taxes due and owing to said state.

4. At all times material hereto, plaintiffs were joined together by contract dated as of January 4, 1957, in a common or joint venture for the construction of a dam on the Snake River in Walla Walla County, State of Washington, generally known as the "Ice Harbor Dam Project," hereafter for brevity sometimes called the "Project," for the United States Department of the Army, Corps of Engineers, pursu-

ant to a contract between plaintiff and the United States Department of the Army, Corps of Engineers, numbered DA-45-164-CIVENG-57-62. The Snake River is a navigable interstate river and a part of the Columbia River system. The construction of the Ice Harbor Dam in which plaintiffs were and at all times material have been engaged, is a part of a comprehensive plan for the development of the Columbia River and its tributaries in the States of Montana, Idaho, Washington and Oregon in the control of floods, the increase of navigation, and the production of electric power for industrial and domestic use in said states. Construction of the phase of said Ice Harbor Dam called for by the above-entitled contract was begun by plaintiffs on or about January 28, 1957, and was completed in the month of February, 1959. During the course of such construction, plaintiffs have used materials, equipment and supplies in a minimum aggregate amount of $17,000,000, of which more than 50 per cent, or $8,500,000, was purchased outside the State of Washington and brought to the Ice Harbor Dam Project for use therein.

5. The Carpenters International is, and at all times herein mentioned was, a labor organization engaged in directing, representing, and acting for its members and local unions in the State of Washington and other states and territories of the United States, as prescribed by its Constitution and Laws. Local 1849 is, and at all times herein mentioned was, a labor organization chartered by and affiliated with defendant International, with its headquarters in Pasco, Washing-

ton, and is engaged in representing its members in and about said city.

6. At no time material hereto was there an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing rigging work at the Ice Harbor Dam Project.

7. On or about April 26, 1957, plaintiffs, hereafter for brevity sometimes called "Montag," at or near the commencement of construction of the project, assigned the work of rigging certain forms, both metal and wood, on multipurpose cranes to the members of Local 14.

8. The assignment of rigging of forms to members of Local 14 was made by Montag as a result of written replies to inquiries addressed to contractors at other major dam projects in the Pacific Northwest, all of which replies stated in substance that the rigging of forms on multiple-purpose cranes at such projects had been assigned to members of the Iron Workers Union. The inquiries as to the assignment of such work by Montag and the consequent assignment were in accord with Montag's construction of the terms of the "procedural rules and regulations of the National Joint Board for Settlement of Jurisdictional Disputes, Building and Construction Industry," October 20, 1949, as amended to and including August 28, 1957, and particularly the "contractors' responsibility" provisions thereof.

9. Defendants Carpenters International and Local 1849, objected to the assignment by Montag of such

rigging work to members of Local 14. Defendants contended that such work belonged to the Carpenters under "Carpenter Agreement for Building, Highway and Heavy Construction Covering Eastern Washington and Northern Idaho 1956-1957-1958" to which plaintiff and defendant were parties, and that the appropriate precedent under the "procedural rules and regulations of the National Joint Board for Settlement of Jurisdictional Disputes, Building and Construction Industry," above cited, called for the area practice, and the practice followed by the contractors at the "Hanford Project" in the Pasco-Kennewick-Hanford area of Central Washington, where rigging of wooden forms was handled by members of the Carpenters Union, as shown by Job decisions of the Joint Board and letters from contractors.

10. On or about June 6, 1957, all of the members of Local 1849 employed by Montag on the project refused in the course of their employment to work on or otherwise handle wooden forms after the same had been rigged by members of Local 14. Said refusal was based on the claim of Local 1849 and its members that the rigging of wooden forms on the project was the work of the members of Local 1849, and the object of said refusal was to force and require Montag to assign said work to members of Local 1849, rather than to members of Local 14, to whom Montag had previously assigned such work.

11. On or about September 10, 1957, all of the members of Local 1849 employed by Montag on the project again refused in the course of their employment

to work on or otherwise handle wooden forms in the same circumstances, and with the same object as set forth in Paragraph 10 hereof.

12. In so refusing to work on or otherwise handle said wooden forms, said members of Local 1849 acted in concert and were induced and encouraged to so act by Local 1849 with the object set forth in Paragraphs 10 and 11 hereof.

13. Construction work on the project was halted from June 6 to June 22, 1957, and from September 10 to September 26, 1957. Plaintiff contends and defendants deny that the refusal of said members of Local 1849 to work on or otherwise handle said wooden forms, as set forth in Paragraphs 10 and 11 hereof, continued throughout said periods when work on the project was halted and was the proximate cause of said work stoppages. Said issue is segregated for separate and later hearing and determination by the court as a part of the damage issue, if the court shall hold that liability exists.

14. The National Joint Board for the Settlement of Jurisdictional Disputes undertook to resolve said dispute pursuant to Article 10 of the contract described in Paragraph 9 hereof, and on November 27, 1957, issued the following decision regarding said dispute over rigging work between Carpenters and the Iron Workers:

> "The hooking on, handling and signalling of all wood forms shall be assigned to carpenters. In other respects there is no basis to change the contractor's assignment. However, when not working on, hooking on, handling and signalling operations

the trade shall proceed with other work as assigned by contractor."

15. At the time such decision was issued, plaintiffs had assigned all rigging work on multipurpose cranes, including the rigging of wooden forms, to the Iron Workers. Thereafter plaintiffs made no change in such assignment and refused to place into effect said Board decision.

PLAINTIFFS' CONTENTIONS

1. Defendant Carpenters International induced and encouraged Local 1849 and its members to so refuse to handle said wooden forms with the object set forth in Paragraphs 10 and 11 hereof.

2. Said conduct of defendants was in violation of Section 303(a)(4) of the Act, and actionable under Section 303(b) thereof, and defendants are liable to plaintiffs for the damages caused thereby.

DEFENDANTS' CONTENTIONS

1. Defendant International Brotherhood of Carpenters and Joiners of America is not liable for the reason that the unlawful acts claimed against Local 1849 cannot be construed to impose liability upon said defendant in the absence of a showing that said defendant participated with said Local in any of plaintiffs' claimed violations of the statute.

2. The plaintiffs, as parties by contract entitled "Carpenter Agreement for Building, Highway and Heavy Construction Covering Eastern Washington and Northern Idaho 1956-1957-1958," were obligated

to follow and comply with the Procedural Rules and Regulations of the National Joint Board for Settlement of Jurisdictional Disputes, and were thus bound to assign the disputed work to members of the defendant Local 1849 of the United Brotherhood of Carpenters and Joiners.

3. Defendant Local 1849 is not liable because the breach of contract by plaintiffs set out in Contention No. 2 legally justifies the action of said Local and its members to refuse to work for the plaintiffs.

4. Defendants have a constitutional right to cease work for any reason, which cannot be impaired, restricted or prohibited by statute.

5. Defendants contend that said decision in Paragraph 14 hereof was a valid and binding determination of the dispute, and required plaintiffs to reassign such work to the members of Local 1849, and that plaintiffs' failure to do so entitles defendants to recover damages based upon the collective bargaining contract described in Paragraph 9 and measured by the wages which otherwise would have been earned by members of Local 1849 if such work had been so assigned.

ISSUE OF FACT

Did defendant Carpenters International induce and encourage Local 1849 and its members to refuse to handle wooden forms with the object set forth in Paragraphs 10 and 11 hereof?

ISSUE OF LAW

As recited in the respective parties' contentions.

EXHIBITS

The exhibits on the list hereto attached were produced and marked and may be received in evidence if otherwise admissible, without further authentication, it being admitted that each is what it purports to be.

IT IS HEREBY ORDERED that the foregoing constitutes the pretrial order in the above-entitled cause, which shall not be amended except by consent of the parties or by order of the court to prevent manifest injustice.

Dated this 30th day of June, 1960.

WILLIAM J. LINDBERG,
United States District Judge

EXHIBITS

Exhibit No.

1. Collective bargaining agreement.
2. Plan for settling jurisdictional disputes.
3. Procedural rules and regulations of the National Joint Board.
4. Deposition of H. H. Brown.
5. Deposition of L. J. Hiller.
6. Deposition of W. H. Hankins.
7. Deposition of George Holland.
8. Deposition of Sam Pickel.
9. Deposition of Richard James Mitchell.
10. Constitution and By-Laws of International Brotherhood of Carpenters and Joiners of America (AFL-CIO).
11. Minutes of meeting June 20, 1957.
12. Night letter from Sam C. Guess to M. A. Hutcheson, dated March 20, 1957.
13. Night letter from Sam C. Guess to John H. Lyons, dated March 20, 1957.
14. Telegram from J. H. Lyons to Sam C. Guess, dated March 22, 1957.
15. Telegram from M. A. Hutcheson to Sam Guess, dated March 21, 1957.
16. Telegram from M. A. Hutcheson to Sam Guess, dated March 22, 1957.
17. Sam Guess' memorandum as to persons present at meeting on March 28, 1957.
18. Montag memo re work assignments dated March 27, 1957.
19. Night letter from S. C. Guess to M. A. Hutcheson, dated April 2, 1957.

Exhibit No.

20. Telegram from M. A. Hutcheson to Sam Guess, dated April 3, 1957.

21. Letter from John T. Dunlop to M. A. Hutcheson and J. H. Lyons, dated April 3, 1957.

22. Letter from Sam C. Guess to H. H. Brown, dated April 4, 1957.

23. Telegram from Sam C. Guess to M. A. Hutcheson, dated April 4, 1957.

24. Letter from John T. Dunlop to M. A. Hutcheson and J. H. Lyons, dated April 9, 1957.

25. Letter from H. H. Brown to Montag, dated April 26, 1957.

26. Assignment of work from Montag directed To Whom It May Concern, dated April 26, 1957.

27. Telegram from Montag to John T. Dunlop, dated June 3, 1957.

28. Telegram from Montag to John T. Dunlop, dated June 6, 1957.

29.* Telegram to L. J. Hiller from M. A. Hutcheson, dated June 10, 1957.

30.* Telegram from L. J. Hiller to M. A. Hutcheson, dated June 12, 1957.

31. Telegram from Sam C. Guess to John Dunlop, dated June 12, 1957.

32. Letter from John T. Dunlop to M. A. Hutcheson and J. H. Lyons, dated June 13, 1957.

33. Letter from Richard W. Axtell to H. H. Brown, dated June 13, 1957.

34. Telegram from Sam C. Guess to John T. Dunlop, dated June 18, 1957.

35. Telegram from J. H. Lyons to John T. Dunlop, dated June 18, 1957.

Exhibit No.

36. Letter from John T. Dunlop to M. A. Hutcheson and Montag-Halvorson-Cascade Austin & Associates, dated June 19, 1957.

37.* Telegram from M. A. Hutcheson to L. J. Hiller, dated June 19, 1957.

38.* Memorandum dated June 20, 1957, signed by George Holland and Lyle Hiller.

39. Telegram from John T. Dunlop to Sam C. Guess, dated June 20, 1957.

39-a. Telegram from John T. Dunlop to Montag-Halvorson-Cascade Austin & Associates, dated June 20, 1957.

40.* Letter from L. J. Hiller to M. A. Hutcheson, dated June 22, 1957.

41.* Letter from Montag to To Whom It May Concern, dated June 24, 1957.

42.* Telegram from M. A. Hutcheson to W. H. Hankins, dated August 22, 1957.

43. Telegram from M. A. Hutcheson to L. J. Hiller, dated August 26, 1957.

44.* Telegram from M. A. Hutcheson to J. H. Lyons, dated August 29, 1957.

45.* Telegram from M. A. Hutcheson to L. J. Hiller, dated August 30, 1957.

46. Telegram from Sam C. Guess to Dunlop, dated September 5, 1957.

47.* Telegram from W. H. Hankins to M. A. Hutcheson, dated September 5, 1957.

48.* Telegram from J. H. Lyons to M. A. Hutcheson, dated September 10, 1957.

49.* Telegram from J. H. Lyons to M. A. Hutcheson, dated September 10, 1957.

50.* Night letter from L. J. Hiller to M. A. Hutcheson, dated September 15, 1957.

Exhibit No.

51.* Telegram from R. J. Mitchell to M. A. Hutcheson, dated September 17, 1957.

52. Telegram from M. A. Hutcheson to National Joint Board, dated September 18, 1957.

53.* Telegram from M. A. Hutcheson to J. H. Lyons, dated September 18, 1957.

54.* Telegram from J. H. Lyons to George H. Holland, dated September 19, 1957.

55.* Telegram from M. A. Hutcheson to L. J. Hiller, dated September 23, 1957.

56.* Telegram from W. H. Hankins and L. J. Hiller to H. H. Brown, dated September 24, 1957.

57.* Telegram from W. H. Hankins and L. J. Hiller to Montag, dated September 24, 1957.

58.* Telegram from W. H. Hankins and L. J. Hiller to M. A. Hutcheson, dated September 24, 1957.

APPENDIX II

29 U.S.C.A. Sec. 187(b)—(303(B)) (prior to the 1959 amendment.)

"Whoever shall be injured in his business or property by reason or (sic) any violation of subsection (2) of this section may sue therefor in any district court of the United States subject to the limitations and provisions of section 185 of this title without respect to the amount in controversy, or in any other court having jurisdiction of the parties, and shall recover the damages by him sustained and the cost of the suit."

29 U.S.C.A. Sec. 187(a)(4)—(303(a)(4))

"(a) It shall be unlawful, for the purposes of this section only, in an industry or activity affecting commerce, for any labor organization to engage in, or to induce or encourage the employees of any employer to engage in, a strike or a concerted refusal in the course of their employment to use, manufacture, process, transport, or otherwise handle or work on any goods, articles, materials, or commodities or to perform any services, where an object thereof is—

"(4) forcing or requiring any employer to assign particular work to employees in a particular labor organization or in a particular trade, craft, or class rather than to employees in another labor organization or in another trade, craft, or class unless such employer is failing to conform to an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing such work. . ."

29 U.S.C.A. Sec. 185(b)

"(b) Any labor organization which represents employees in an industry affecting commerce as defined in this chapter and any employer whose

activities affect commerce as defined in this chapter shall be bound by the acts of its agents. Any such labor organization may sue or be sued as an entity and in behalf of the employees whom it represents in the courts of the United States. Any money judgment against a labor organization in a district court of the United States shall be enforceable only against the organization as an entity and against its assets, and shall not be enforceable against any individual member or his assets."

APPENDIX III

EXHIBITS

Exhibits 1 to 58 inclusive are described and their listing is attached to pretrial order in Montag No. 18875, at pages of the Clerk's Transcript Nos. 35, 36, 37.

The exhibits were actually agreed upon and it not clearly appearing whether the exhibits are appellees' or appellants', we shall state that exhibits 1 to 3 are identified and admitted at page 12 RT. Exhibits 4 through 9 were identified and admitted at page 13 RT. Exhibits 10 through 11 are identified and admitted at page 13 RT. Exhibits 12 through 58 are identified and admitted at page 14 RT. Exhibits 59 and 60 are identified at page 109 RT and admitted at page 110 RT.

Montag exhibits	Identified	Offered	Admitted
61	RT 334	RT 335	RT 335
62	RT 334	RT 335	RT 335
63	RT 502	RT 502	RT 503
64	RT 502	RT 502	RT 503
65	RT 234	RT 235	RT 235
66	RT 312	RT 313	RT 317
67	RT 506	RT 508	RT 508
68	RT 211	RT 213	RT 213
69	RT 211	RT 213	RT 213
70	RT 218	RT 219	RT 220
71	RT 218	RT 233	RT 233
72	RT 335	RT 335	RT 335

68-A	RT 496	RT 496	RT 497
68-B	RT 496	RT 496	RT 497
68-C	RT 608	RT 609	RT 609
73	RT 692-693	RT 692	RT 692
74	RT 770	RT 782	RT 782
75	RT 851	RT 854	RT 854
Holman exhibits	Identified	Offered	Admitted
1	RT 921	RT 921	RT 921
2	RT 926	RT 926	RT 930
3	RT 941	RT 942	RT 942
4	RT 1047	RT 1047	RT 1047
5	RT 1047	RT 1047	RT 1047
6	RT 1048	RT 1048	RT 1048
Appellants' exhibits Holman			
7	RT 1051	RT 1051	RT 1051
8	RT 1051	RT 1051	RT 1051
Curtis exhibits			
1	RT 954-955	RT 966	RT 966
2	RT 961-962	RT 966	RT 966
3	RT 961-962	RT 966	RT 966
4	RT 961-962	RT 966	RT 966
5	RT 991	RT 991	RT 991
Appellants' exhibits Curtis			
6	RT 1006-1007	RT 1007	RT 1008
7	RT 1006-1007	RT 1007	RT 1008

No. 18875

United States
COURT OF APPEALS
for the Ninth Circuit

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA (AFL-CIO) and CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA,

Appellants-Appellees,

vs.

C. J. MONTAG & SONS, INC., a corporation, CARL M. HALVORSON, INC., a corporation, AUSTIN CONSTRUCTION CO., a corporation, BABLER BROS., INC., a corporation, and McLAUGHLIN, INC., a corporation,

Appellees-Appellants.

APPELLEES-APPELLANTS' REPLY BRIEF

Appeal from the United States District Court for the Eastern District of Washington, Southern Division.

HONORABLE WILLIAM J. LINDBERG, Judge.

MANLEY B. STRAYER,
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No. 18875

United States
COURT OF APPEALS
for the Ninth Circuit

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA (AFL-CIO) and CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA,

Appellants-Appellees,

vs.

C. J. MONTAG & SONS, INC., a corporation, CARL M. HALVORSON, INC., a corporation, AUSTIN CONSTRUCTION CO., a corporation, BABLER BROS., INC., a corporation, and McLAUGHLIN, INC., a corporation,

Appellees-Appellants.

APPELLEES-APPELLANTS' REPLY BRIEF

Appeal from the United States District Court for the Eastern District of Washington, Southern Division.

HONORABLE WILLIAM J. LINDBERG, Judge.

STATEMENT OF THE CASE

Pursuant to a stipulation between the parties concerning the method of filing briefs, this brief constitutes

appellees' reply brief on the issues raised by their appeal. These issues were discussed in appellees' opening brief (pp. 7-29) and in appellants' answering brief (pp. 2-15).

Appellants have taken exception to that portion of appellees' statement of facts which states that the appellees made the assignment of rigging both wooden and metal forms on multipurpose cranes to the Ironworkers after an investigation disclosed that this was the *"established practice in the locality."* Appellees did not intend by the use of this language to convey the impression that there was a finding that appellees had assigned the disputed work in accordance with the "established practice in the local area" as provided in the Procedural Rules and Regulations of the National Joint Board (Exhibit 3, p. 4, Par. 3(b)). The fact is that the court made no finding with respect to appellees' compliance or noncompliance with the Procedural Rules. However, as appellants admit, the assignment was made in compliance with the established practice on dam projects in the Pacific Northwest and in accordance with appellees' construction of the Procedural Rules, particularly Pars. 3(b) and (c) of the Contractor's Responsibility provisions (Exhibit 5, p. 44; CT 29, Par. 8).

Certainly appellees' actions with respect to the initial assignment; their subsequent efforts to work out an equitable solution with the two competing unions; their early requests for assistance from the Joint Board (Exhibits 21, 24, 28, 32 and 34); and their subsequent efforts to comply with the Joint Board award, all as discussed in appellees' opening brief, pp. 11-18, disprove

appellants' statement that "appellees intended to avoid, and steadfastly refused to be bound by, the collective bargaining agreement or the procedure of the Joint Board" (Appellants' Answering Brief, p. 3). Furthermore, appellants' statement on page 21 of their reply brief that appellees did not notify the Joint Board of the jurisdictional dispute until September 5, 1957, is clearly erroneous (Exhibits 21, 24, 28, 32 and 34). Appellees submit that this statement is nothing more than an ineffectual attempt to justify appellants' own refusal to comply with the Union's Responsibility provisions of the Procedural Rules (Exhibit 3, pp. 5 and 6, Pars. 1, 2, 3 and 4).

SUMMARY OF ARGUMENT

1. The trial court erred in reducing appellees' damages by the sum of $40,000 "in mitigation of damages."

2. The trial court erred in reducing the damages awarded appellees for the loss of use of idled equipment by 50 per cent of the reasonable rental value of such equipment.

3. Appellees are entitled to recover a reasonable profit markup of ten per cent on damage items 1 through 7.

4. Appellees are entitled to recover, as damages, interest on the amount of damages awarded from January 1, 1959, to the date of judgment.

ARGUMENT

I

THE TRIAL COURT ERRED IN REDUCING APPELLEES' DAMAGES BY THE SUM OF $40,000 "IN MITIGATION OF DAMAGES"

In their opening brief, pp. 9-21, appellees set forth the reasons for their argument that the trial court's action in reducing appellees' damages by $40,000 "in mitigation of damages" was erroneous. Appellants' answering brief indicates that the parties are in dispute over two basic issues with respect to this aspect of appellees' appeal: (1) Does the court's conclusion conflict with the jurisdictional limitations of Section 301, Labor Management Relations Act, 1947 (29 U.S.C. Sec. 185); and (2) Do the facts of this case, including the conduct of appellees, justify an application of the equitable doctrine of mitigation of damages.

In their opening brief (pp. 9-10) and answering brief (pp. 46-50), appellees relied in part on *Westinghouse Salaried Employees* v. *Westinghouse Electric Corp.,* 348 U.S. 437, 75 S. Ct. 489 (1955), in support of their argument that the court's conclusion was erroneous and in answer to appellants' argument that they were entitled to a judgment on their cross complaint.

Appellants have cited no case authority in their answering brief which refutes appellees' interpretation of the court's ruling in *Westinghouse* or of the subsequent decisions in *Textile Workers of America* v. *Lincoln Mills,* 353 U.S. 448, 77 S. Ct. 912 (1957), and *Smith* v. *Evening*

News Association, 371 U.S. 195, 83 S. Ct. 267 (1962). Since the filing of appellees' initial brief, this court has decided *Retail Clerks Local* 1222 v. *Alfred M. Lewis, Inc.,* 327 F.2d 442 (9th Cir. 1964), which appellees believe is consistent with their position here.

Retail Clerks was an action brought under Section 301, Labor Management Relations Act, 1947, by a union and its secretary. Plaintiffs sought a judgment requiring the defendants to comply with the provisions of a collective bargaining agreement allegedly requiring a retroactive cost of living adjustment in favor of employees covered by the agreement or, in the alternative, for a declaratory judgment construing the agreement. The individual plaintiff alleged that he represented all of the members of the bargaining unit who were too numerous to be named and brought before the court individually. Relying on *Westinghouse,* the lower court granted defendants' motion to dismiss the action on the ground that it had no jurisdiction under Section 301. This court reversed and remanded the case to the District Court.

The court's holding in *Retail Clerks* does not vary from appellees' interpretation of the decisions in *Westinghouse* and *Smith* and seems to be a logical application of the *Lincoln Mills* doctrine. Contrary to *Westinghouse* and the instant case, the plaintiffs in *Retail Clerks* were not seeking to recover a judgment for money owing to individual members of the union. They sought only a judgment requiring the defendants to comply with the collective bargaining agreement. The union's pur-

pose was to enforce compliance with an agreement to which it was a party. It was not seeking to enforce the uniquely personal rights of its individual members to collect additional wages due them. If the plaintiffs had been seeking a money judgment for wages due individual members, we submit that it would have been necessary that such individuals' rights be brought before the court for determination either by virtue of an assignment to the plaintiffs, as in *Smith,* or in some other manner which would have enabled the court to act.

In the instant case, appellants filed a cross complaint seeking to recover damages which the unions allegedly sustained by reason of appellees' asserted breach of the collective bargaining agreement and then sought to have those damages measured by the wages which they claim would have been paid to the individual members of Local 1849. The trial court concluded that it had jurisdiction over appellants' cross complaint but that appellants had not shown and could not recover other than nominal damages on their cross complaint (CT 82). However, by reducing the sum awarded appellees, the court, by indirection, permitted appellants to recover everything they sought, using, as a measuring device, the wages which allegedly would have been paid to the individual members of Local 1849. This the court did without *any* evidence that individual employees of Local 1849 sustained any damages or would have earned any additional wages during the period covered by the claim; without any attempt to identify the persons affected or to have them brought before the court for a binding determination of their rights; and without affording

appellees any protection against the possible subsequent enforcement of those rights by the individuals under Section 301.

We agree that the trial court had jurisdiction to consider appellants' claim of damages for breach of the collective bargaining agreement. We cannot agree, however, that the court had jurisdiction to allow the recovery by appellants of the uniquely personal wage claims belonging to individual employees.

Appellees submit that appellants were precluded from bringing an action under Section 301 to recover the damages which the trial court allowed by way of mitigation without an assignment of the individuals' claims or without otherwise bringing those individuals before the court for a determination of their respective rights. Since appellants were precluded from maintaining such an action directly, the lower court erred in affording them the very same relief "in mitigation of damages" and thereby violating the jurisdictional limitations of Section 301.

Appellants have also argued that the facts of this case justify an application of the equitable doctrine of mitigation of damages because of the "uncompromising attitude" of appellees. The facts of this case do not justify that terminology. As discussed in detail in their opening brief (pp. 11-18), appellees made every effort to accommodate the competing demands of the two unions and to place the Joint Board award in effect insofar as that could be done consistently with the award's provisions against featherbedding and duplicate

crews. However, as discussed in appellees' opening brief, the award and the agreement after which it was patterned were impractical and impossible of performance (Exhibit 9, p. 29, RT 888, 890-891).

In any event, the existence of an "uncompromising attitude" on the part of a plaintiff such as this court found did not exist in *International Longshoremen's, Etc.* v. *Juneau Spruce Corp.,* 189 F.2d 177, 191 (9th Cir. 1951), does not warrant a reduction of actual damages shown. Application of the doctrine of mitigation of damages depends upon the good faith conduct of a defendant, not the bad faith conduct of a plaintiff. Conduct of a plaintiff may be considered for the purpose of applying the doctrine of avoidable consequences but that doctrine has no application here for the reasons discussed in appellees' opening brief (pp. 18-19).

For the reasons set forth above and in their opening brief (pp. 9-21), appellees submit that that portion of the lower court's judgment which reduced the amount of damages awarded appellees by $40,000, "in mitigation of damages," should be reversed.

II

THE TRIAL COURT ERRED IN REDUCING THE DAMAGES AWARDED APPELLEES FOR THE LOSS OF USE OF IDLED EQUIPMENT BY 50 PER CENT OF THE REASONABLE RENTAL VALUE OF SUCH EQUIPMENT

Appellees' argument in support of the above Specification of Errors is found on pages 22-25 of their open-

ing brief. Appellants have presented no argument on this issue in their answering brief. As discussed in appellees' opening brief, the cases do not support the lower court's conclusion that appellees' damages for idled equipment should be reduced by 50 per cent of the reasonable rental value. Furthermore, there is no evidence in the record which would support a finding that the reduction should have exceeded 25 per cent in this case.

Accordingly, for the reasons stated in their opening brief, appellees submit that to the extent the court below reduced appellees' damages for idled equipment by an amount in excess of 25 per cent of the reasonable rental value of said equipment, its finding was contrary to the evidence and clearly erroneous.

III

APPELLEES ARE ENTITLED TO RECOVER A REASONABLE PROFIT MARKUP OF TEN PER CENT ON DAMAGE ITEMS 1 THROUGH 7

Appellees seek to recover a reasonable profit markup of ten per cent on damage items 1 through 7 (CT 70) which represent the additional out-of-pocket expenses that they were required to incur during the work stoppage periods. This claim is based on the fact that if appellants had not interfered with appellees' freedom to employ their labor and capital during the work stoppages, appellees could have recovered not only these out-of-pocket expenses but also a reasonable profit markup. Appellees' evidence shows that a ten per cent

profit markup is reasonable in the construction industry on jobs of this type and that this was the markup used by appellees in bidding on the Ice Harbor contract (RT 509).

This is not a case in which appellees are seeking to recover damages measured by loss of profits such as is true of the cases cited by appellants in their answering brief. On the contrary, this is a case where an award of pure out-of-pocket expenses is insufficient to compensate appellees for their losses without the addition of the *same ten per cent markup* on those items which appellees included in bidding this job. Appellees fail to see any distinction in this regard between this case and *Morrison - Knudsen Company, Inc.* v. *International Brotherhood of Teamsters, Etc.,* D.C.E.D. Wash. S.D., Civil No. 1105, aff'd *International Brotherhood* v. *Morrison-Knudsen Co.,* 270 F.2d 530 (9th Cir. 1959), discussed at p. 26 of appellees' opening brief, nor have appellants pointed to any distinction.

IV

APPELLEES ARE ENTITLED TO RECOVER, AS DAMAGES, INTEREST ON THE AMOUNT OF DAMAGES AWARDED FROM JANUARY 1, 1959, TO THE DATE OF JUDGMENT

Appellees' argument in support of their claim for recovery of interest as damages is found on pages 26-29 of their opening brief. Appellants have presented no argument in answer to appellees' contention that they were entitled to interest, in the discretion of the court,

on those item of damages, if any, which could not have been ascertained on January 1, 1959. For the reasons presented in their opening brief, appellees submit that the court below erred in holding that it had no such discretion (RT 1147).

Appellees also argued that they were entitled to recover interest as a matter of right on those items of damages which could have been ascertained on January 1, 1959, on the basis of the evidence submitted at the trial. Certainly this would include at least the amounts which appellees were required to expend for overhead salaries, property maintenance wages, miscellaneous costs, wage increases and sandblasting. Those amounts could have been ascertained from appellants' books and records prior to January 1, 1959.

Appellants argue that *Grays Harbor County* v. *Bay City Lumber Company,* 47 Wn. 2d 879, 289 P.2d 975 (1955), one of the cases cited by appellees in support of their argument, is not in point for the reason that it was a conversion action. Although we agree that *Grays Harbor* was a conversion action, we fail to see why the rule applied in that case is not also applicable where the loss results from an unlawful detention or deprivation of the use of property as in the instant case. Here appellees were deprived of the use of their property just as effectively as they would have been if appellants had converted it.

None of the cases cited by appellants supports the conclusion that the rule in *Grays Harbor* is not applicable here. Certainly *Meyer* v. *Strom,* 37 Wn. 2d 818, 226

P.2d 218 (1951), and *Woodbridge* v. *Johnson,* 187 Wash. 191, 59 P.2d 1135 (1936), both of which are contract cases, have no application here. And, although in *Lamb* v. *Railway Express Agency,* 51 Wn. 2d 616, 320 P.2d 644 (1958), proof of negligence was required, the cause of action appears to have been for breach of a bailment contract. In any event that case would fall within the exception to the *Grays Harbor* rule which applies where property is unintentionally lost or destroyed while *rightfully* in the defendant's possession.

For the reasons discussed above and in their opening brief, appellees submit that the court erred in not allowing appellees interest, on the amount of damages awarded, from January 1, 1959, to the date of judgment.

CONCLUSION

Appellees respectfully submit that the District Court's judgment reducing appellees' damages by $40,000 in mitigation of damages should be set aside and that appellees' judgment should be increased by that amount together with a reasonable profit markup, interest and additional damages for the loss of use of equipment idled by the work stoppages.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

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Of Attorneys for
Appellees-Appellants

No. 18875

United States
COURT OF APPEALS
for the Ninth Circuit

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA (AFL-CIO) and CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA,

Appellants-Appellees,

vs.

C. J. MONTAG & SONS, INC., a corporation, CARL M. HALVORSON, INC., a corporation, AUSTIN CONSTRUCTION CO., a corporation, BABLER BROS., INC., a corporation, and McLAUGHLIN, INC., a corporation,

Appellees-Appellants.

APPELLEES-APPELLANTS' BRIEF

Appeal from the United States District Court for the Eastern District of Washington, Southern Division.

HONORABLE WILLIAM J. LINDBERG, Judge.

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No. 18875

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INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA (AFL-CIO) and CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA,

Appellants-Appellees,

vs.

C. J. MONTAG & SONS, INC., a corporation, CARL M. HALVORSON, INC., a corporation, AUSTIN CONSTRUCTION CO., a corporation, BABLER BROS., INC., a corporation, and McLAUGHLIN, INC., a corporation,

Appellees-Appellants.

APPELLEES-APPELLANTS' BRIEF

Appeal from the United States District Court for the Eastern District of Washington, Southern Division.

HONORABLE WILLIAM J. LINDBERG, Judge.

JURISDICTIONAL STATEMENT

The jurisdiction of the United States District Court to hear this cause was based upon the Labor Management Relations Act, 1947, Section 303(b) (29 U.S.C.

Sec. 187(b)). The jurisdiction of this court to review the District Court's decision is based upon Section 1291 of Title 28, United States Code, appeals having been taken by both plaintiffs and defendants below from all or portions of a final judgment entered on February 21, 1963 (CT 73-74).

Appellees-appellants, hereinafter called "appellees," are corporations joined together by a contract dated as of January 4, 1957, in a joint venture for the construction of a dam on a navigable river in the State of Washington. Each of the members of the joint venture is engaged in interstate commerce and their activities affect commerce within the meaning of the Labor Management Relations Act, 1947 (29 U.S.C. Sec. 142 (1)). Appellants-appellees, hereinafter called "appellants," are unincorporated associations and labor organizations, both of which represent employees in an industry affecting commerce within the meaning of the Labor Management Relations Act, 1947 (29 U.S.C. Sec. 142(1)).

References to the record on appeal in this case will be the same as those used in appellants' brief; "CT" for references to the Clerk's Transcript and "RT" for references to the Reporter's Transcripts.

STATEMENT OF THE CASE

Appellees commenced this action in the District Court seeking to recover damages resulting from a violation by appellants, hereinafter sometimes referred to as "International Union" and "Local 1849," respectively, of Section 303(a)(4) of the Labor Management Relations Act, 1947 (29 U.S.C. Sec. 187(a)(4)). This section was amended in 1959 after the commencement of this action, and is now cited as Section 303(a) (29 U.S.C. Sec. 187(a)). At the time of appellants' alleged unlawful activity, appellees were engaged as prime contractor in the performance of a contract with the United States Department of the Army, Corps of Engineers, for the construction of a multi-purpose dam on the Snake River in the State of Washington, commonly known as the Ice Harbor Dam. Work on the dam was begun in January, 1957, and completed in February, 1959 (CT 56, par. 4). The contract price was $30,000,000 (RT 523).

Construction of the dam entailed the rigging of both metal and wood forms into which concrete was poured to comprise the outer and inner shell of portions of the dam structure. Rigging involves hooking the forms onto cranes and unhooking the forms from cranes after the forms have been elevated into place. In most cases rigging also includes signalling to the operator of the crane that the forms are secured for elevation and that the form after elevation has been unsecured from the crane mechanism (CT 55, par. 1(f)).

In April, 1957, appellees assigned the work of rigging both the metal and wood forms on multi-purpose cranes to members of the Ironworkers Union Local 14 (CT 57, par. 7). This assignment was made after an investigation disclosed that the established practice in the locality was to assign the rigging of all forms on multi-purpose cranes to members of the Ironworkers Union (CT 57, par. 8).

Appellants objected to the assignment and contended that the work of rigging wood forms belonged to members of the Carpenters Union (CT 58, par. 9). At no time was there an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing rigging work at the Ice Harbor Dam project (CT 57, par. 6).

When appellees refused to comply with appellants' demands to change the assignment, all of the members of appellant Local 1849 employed by the joint venture refused, on two separate occasions, in the course of their employment to work on or otherwise handle wood forms after the same had been rigged by members of Ironworkers Union Local 14 (CT 58-59, pars. 10 and 11). The admitted object of said refusals was to force appellees to assign the disputed work to members of Local 1849 rather than to members of Local 14 (CT 30, pars. 10 and 11), and the court so found (CT 58-59, pars. 10 and 11). In the pretrial order on liability issues, it was agreed that in so refusing to work the members of Local 1849 acted in concert and were induced and

encouraged to so act by Local 1849 with the object of forcing a change in the work assignment (CT 30, par. 12).

The trial court found that the International Union participated in and encouraged the actions of Local 1849 in inducing and encouraging its members to engage in concerted refusals in the course of their employment to work on or otherwise handle wood forms rigged by members of Local 14 with the object of forcing appellees to assign said rigging work to members of Local 1849 rather than to members of Local 14 (CT 60, par. 16). The court also found that the refusals of the members to work and the inducement and encouragement thereof by appellants continued throughout the periods from June 7 to June 20, 1957 (14 days), and from September 10 to September 25, 1957 (16 days), when concrete construction work on the project was halted, and was the proximate cause of said work stoppages (CT 69, par. 1).

After the members of Local 1849 had returned to work the second time, without an adjustment of the dispute, the National Joint Board for the Settlement of Jurisdictional Disputes undertook to resolve the dispute. On November 27, 1957, it issued the following decision:

> "The hooking on, handling and signalling of all wood forms shall be assigned to carpenters. In other respects there is no basis to change the contractor's assignment. However, when not working on, hooking on, handling and signalling operations the trade shall proceed with other work as assigned by contractor." (CT 59, par. 14.)

At the time of this decision all work of rigging both wood and metal forms on multi-purpose cranes had been assigned to Ironworkers and, thereafter, appellees made no change in the assignment (CT 59, par. 15). Prior to this decision and on October 11, 1957, appellees commenced this action.

Following the trial on liability issues and on April 20, 1961, the court issued its memorandum opinion (CT 38-52) and thereafter its Findings of Fact and Conclusions of Law on Liability Issues (CT 53-61), holding that appellants' conduct violated Section 303(a)(4) of the Labor Management Relations Act, 1947, and that appellants were liable for the damages caused thereby (CT 60). Following the trial on the segregated issue of damages, the court entered its Supplemental Findings of Fact and Conclusions of Law on Remaining Issues (CT 68-72), holding that appellees had been damaged in the total amount of $204,527.55 (CT 70-71). The court also held that appellees' damages should be reduced by $40,000 in mitigation of damages (CT 82-83). A judgment for appellees in the sum of $164,527.55 was entered on February 21, 1963 (CT 73-74).

Pursuant to a stipulation between the parties concerning the method of filing briefs, this initial brief of appellees constitutes their opening brief on the issues raised by their appeal and their brief in answer to appellants' brief.

OPENING BRIEF

SPECIFICATION OF ERRORS

1. The trial court erred in concluding that the amount of damages awarded appellees should be reduced by $40,000 in mitigation of damages, for the reason that such conclusion was not supported by the evidence or by any legal or equitable theory.

2. The trial court erred in reducing the amount of damages awarded appellees for idled equipment by 50 per cent of the reasonable rental value of such equipment.

3. The trial court erred in refusing to grant appellees a reasonable profit markup on those items of damages representing additional costs incurred as a result of the work stoppages.

4. The trial court erred in failing to award appellees interest from and after the time their damages were sustained until the date of judgment.

SUMMARY OF ARGUMENT

1. The trial court's Supplemental Conclusion of Law No. 2 reducing appellees' damages by the sum of $40,000 in mitigation of damages was not supported by the evidence or by any legal or equitable theory.

A. The court's conclusion exceeded its powers since it was in conflict with the jurisdictional limitations of

Section 301, Labor Management Relations Act, 1947 (29 U.S.C. Sec. 185).

B. Appellees did not breach the collective bargaining agreement (Exhibit 1) by failing to place in effect the November 27, 1957 decision of the National Joint Board for the Settlement of Jurisdictional Disputes.

C. The facts of this case do not justify an application of either the doctrine of avoidance of damages or mitigation of damages.

2. Appellees are entitled to recover as damages for the loss of use of the equipment idled by the work stoppages the value of the loss of use measured by reasonable rental value without a 50 per cent reduction of that value because of absence of use.

3. Appellees are entitled to recover as additional damages a reasonable profit markup of ten per cent on those items of damages representing additional costs incurred as a result of the work stoppages.

4. Appellees are entitled to recover as damages interest on the amount of damages awarded at the rate of six per cent per annum from January 1, 1959, to the date of judgment, February 21, 1963.

ARGUMENT

I

The trial court's Supplemental Conclusion of Law No. 2 reducing appellees' damages by the sum of $40,000 in mitigation of damages was not supported by the evidence or by any legal or equitable theory.

A. The court's conclusion exceeded its powers since it was in conflict with the jurisdictional limitations of Section 301, Labor Management Relations Act, 1947 (29 U.S.C. Sec. 185).

The trial court's Supplemental Conclusion of Law No. 2 on Remaining Issues, as amended (CT 82-83), provided as follows:

> "Viewing defendants' cross-complaint as an independent cause of action, defendants are not entitled to recover other than nominal damages from plaintiffs as a result of said breach. However, considering the nature of this litigation and all of the surrounding circumstances of this case and the equities of the situation, it is proper and equitable that the plaintiffs' damages should be reduced by the sum of $40,000, which I find to be a reasonable amount in mitigation of damages."

This conclusion was directed to appellants' cross complaint for damages based upon appellees' alleged breach of contract and measured by the wages which would have been earned by the members of Local 1849 if the disputed work had been assigned to them (CT 33, par. 5).

The court's conclusion and the remarks made during the argument on this issue (RT 1151-1154) indicate the

court adopted appellees' argument that under the rule of *Westinghouse Salaried Employees* v. *Westinghouse Electric Corp.,* 348 U.S. 437, 75 S. Ct. 489 (1955), it lacked jurisdiction to award appellants damages measured by wages claimed to be due individual employees of Local 1849. Appellees submit that this argument is supported by that portion of the *Westinghouse* decision which denied federal courts jurisdiction over an action by a union to enforce the uniquely personal rights of individual employees. That decision has not been impaired by the subsequent decisions of the United States Supreme Court in *Textile Workers of America* v. *Lincoln Mills,* 353 U.S. 448, 77 S. Ct. 912 (1957), holding that courts have jurisdiction under Section 301 over actions by *unions* to enforce collective bargaining agreements, and *Smith* v. *Evening News Association,* 371 U.S. 195, 83 S. Ct. 267 (1962), holding that courts have jurisdiction under Section 301 over actions by *individual employees* seeking damages for breach of collective bargaining agreements.

Despite the apparent acceptance of this rule and the finding that appellants were not entitled to recover other than nominal damages on their cross complaint, the court by indirection, awarded appellants the full amount of the damages claimed and applied the only measure of damages submitted, the wages that allegedly would have been paid to members of Local 1849 but for the breach. Appellees submit that this device of reducing the sum awarded appellees "in mitigation of damages" violated the jurisdictional limitations of Section 301.

B. Appellees did not breach the collective bargaining agreement (Exhibit 1) by failing to place in effect the November 27, 1957 decision of the National Joint Board for the Settlement of Jurisdictional Disputes.

Underlying the court's mitigation of damages theory was its Supplemental Conclusion of Law No. 1 (CT 71) that appellees breached their collective bargaining agreement with appellants by failing to place in effect the decision of the National Joint Board for the Settlement of Jurisdictional Disputes dated November 27, 1957. Appellees submit that this conclusion was erroneous.

The work which appellees assigned to the Ironworkers and which was the subject matter of the dispute involved here was the rigging of all types of materials, particularly metal and wood forms on multi-purpose cranes (Exhibits 18 and 26; CT 57, par. 7). This work was assigned to the Ironworkers as early as March 27, 1957 (Exhibit 18), after a pre-job conference at which the subject was discussed (Exhibit 8, p. 8; Exhibit 4, p. 4, 6-8; RT 885). Following this assignment, the Carpenters engaged in a work stoppage in April, 1957, which, although it is not involved here, concerned the rigging on large cranes (Exhibit 4, p. 7; RT 74-76, 885; Exhibits 19, 20, 21, 22 and 23). As a result of this work stoppage and the competing demands of the Ironworkers and Carpenters over which would be entitled to the multi-purpose rigging when it commenced, appellees made an investigation of the area practice on similar projects to determine which group of employees had performed the work of rigging forms on multi-purpose

cranes (CT 57, par. 8; RT 79, 885-886). As a result of this investigation, appellees assigned the work to the Ironworkers (Exhibit 26). This assignment was made in accordance with area practice as determined by appellees and was consistent with the practice adopted on all dams previously built in the Northwest, including McNary Dam, twenty-five miles west of the Ice Harbor job (Exhibit 26; RT 886). Appellants admitted this was the established practice on dam projects (Exhibit 5, p. 44) and the International representative never contended to the Ironworkers' representative that the assignment violated area practice (Exhibit 7, p. 47). Certainly the Ironworkers agreed that the assignment was in accordance with area practice (Exhibit 8, p. 7; Exhibit 7, pp. 28 and 47).

Local 1849 immediately objected to this assignment (Exhibit 25). When appellees failed to change the assignment, although it would have been less expensive to have done so (RT 885-886), and the Ironworkers continued to assert a claim to the work (Exhibit 8, pp. 7, 9-10), the members of Local 1849 engaged in the first work stoppage involved here. This resulted in the two competing unions dispatching international representatives to the job site for the purpose of adjusting the dispute (Exhibit 29). Various meetings were held between appellees and the unions culminating in a meeting on June 20, 1957 (Exhibit 11), at which an agreement was reached to return the men to work and settle any subsequent jurisdictional disputes without work stoppages (Exhibit 38). As a result of this meeting, appellees made certain changes in the assignment which

resulted in giving additional work of rigging wood forms to Carpenters to the extent that could be accomplished without the use of duplicate crews (Exhibit 40, p. 2; RT 875, 886-887).

The work proceeded in this manner until the latter part of August, 1957, at which time appellants' representatives sought to put in effect a tentative understanding between the International presidents concerning the rigging of wood forms on multi-purpose cranes (RT 887; Exhibit 5, pp. 41-42). This understanding (Exhibit 43) divided appellees' single work assignment into two assignments, the Carpenters taking the wood forms and the Ironworkers everything else. In effect, where wood forms were involved, the Carpenters treated the multi-purpose cranes as tools of the trade. Since the Ironworkers would never agree to composite crews (Exhibit 4, p. 8; Exhibit 8, pp. 8-9; Exhibit 11, p. 3; RT 892), the only way to put this agreement in effect was to hire and work duplicate crews on the multi-purpose cranes (RT 887). Had other crafts demanded the right to rig their own work, the result would have been chaotic (Exhibits 34 and 46). Appellees immediately protested to the National Joint Board (Exhibit 46) and stated they would not put the agreement in effect until the protest was processed (Exhibit 47).

Following the appellees' refusal to comply with the literal terms of the agreement as demanded (Exhibit 50), the second work stoppage occurred. During the work stoppage, the competing unions recognized that the agreement could not be literally applied without "feath-

erbedding" the job and directed their respective unions to work out an equitable solution (Exhibits 53 and 54). Before this meeting was held, the Carpenters were directed to return to work (Exhibits 55, 56 and 57). The meeting was subsequently held on September 26, 1957, but the parties were not able to solve the dispute (Exhibit 5, pp. 53-56; Exhibit 7, pp. 38-39; RT 888). At this meeting, Mr. Holland, the Ironworkers' representative, supported appellees' position that the agreement was impractical (Exhibit 9, p. 29). As Mr. Montag testified, the parties "worked for days there actually trying to figure out how we could give any additional wood form rigging to the Carpenters on a multiple crane without featherbedding the job" (RT 888). After "the second meeting the matter was dropped because nobody could show us how we could do this" (RT 888).

Following the September meetings, appellees' bargaining agent wired the National A.G.C. office advising that the only agreement which could be reached required the appellees to use duplicate crews on multipurpose cranes when rigging wood forms (Exhibit 9, p. 40). This wire prompted an inquiry from the Joint Board (Exhibit 9, pp. 40-41) to which Mr. Guess responded on October 2, 1957 (Exhibit 9, p. 41). Apparently on the basis of representations by both unions, the Joint Board responded on October 3, 1957, as follows:

> "This office has been assured by Ironworkers and Carpenters Internationals that it is not their intent to use duplicate crews on any rig" (Exhibit 9, p. 42).

To this wire appellees' representative replied on the same

day, expressing gratification at this assurance but also inability to understand how the two conflicting objectives could be accomplished (Exhibit 9, p. 43). A subsequent meeting on October 7, 1957, failed to resolve the dispute (Exhibit 5, p. 56, RT 891).

With this background, the Joint Board issued its decision of November 27, 1957 (CT 59, par. 14), in which it attempted to please everyone by approving a division of the single work assignment but requiring that this be done in a manner which would not require duplicate crews. With reference to the award, Chairman Mitchell testified that because of the contractors' expressed concern the Board took precautions against featherbedding by the third sentence of its award, as follows:

> "However, when not working on hooking-on, handling and signalling operations, the trades shall proceed with other work as assigned by the contractor" (Exhibit 9, p. 38).

According to Chairman Mitchell, the purpose of the above-quoted language was "so there could be no accusation of duplicating crews (Exhibit 9, p. 38). He further testified that "by that action any possible possibility of duplicate crews was eliminated" (Exhibit 9, p. 39).

This proposal for avoiding duplicate crews was wholly impracticable and would have resulted in even heavier idle-time losses than duplicate crews. As shown by the testimony of Mr. Montag, Project Manager, it was a make-work featherbedding expedient on an even grander scale. He stated:

> ". . . you can visualize a carpenter over here one hundred feet or five hundred feet away and a crew of twelve or fourteen men up in a block, and the iron workers are rigging up steel forms and they come to a point where they need one little bit of wood in the middle of this square and somebody has to call to Joe to come over and tie this on to the machine so they can get it up, and in the meantime the whole crew up above is standing around idle . . . and that is where the big cost would be . . ." (RT 890-891).

This explains why repeated attempts by the parties to place the award in effect were unsuccessful notwithstanding the Board's instructions as indicated in its telegram of December 31, 1957:

> "Both unions were instructed to assist contractor in executing work performance to eliminate any accusation of featherbedding. Cooperation is still necessary between contractor and Unions involved" (Exhibit 9, page 45).

Appellants, having obtained the award on their assurances that there would be no duplicate crews or other featherbedding practices, would prefer to ignore the issue here. They offered no evidence to contradict the testimony of Mr. Montag and objected to the questioning of Local 1849's business agent on this point by appellees (RT 744-749). Perhaps the reason for this reluctance lies in the fact that appellants' evidence in support of their $40,000 damage claim was that this would have been the cost to appellees of hiring duplicate crews. Ironically, the trial court's allowance of a $40,000 offset against appellees' damages results in giving appellants the very thing they had disclaimed any intention of requiring.

Whether the Joint Board was misled by the assurances of the unions that no featherbedding would result or engaged in a cynical attempt to compel featherbedding with duplicate crews while appearing to condemn such practices need not be determined. The net result in any event was a self-contradictory award which said in one breath to divide the work and in the next to do it without featherbedding. As such, the award was impossible of performance and accordingly neither valid nor enforceable.

Aside from the contradictory features of the award, the Board's rubber stamping of the agreement between the international unions was not in compliance with the authority given it by contract or the law governing the determination of jurisdictional disputes. The National Labor Relations Board has consistently emphasized the necessity for considering the efficiency of the employers' operations when resolving disputes in proceedings under Section 10(k) (29 U.S.C. Sec. 160(k)). *Pneumatic Tool Company,* 142 NLRB No. 48 (1963); *United Brotherhood of Carpenters, Etc., Local* 1622, 139 NLRB 591, 597 (1962); *Glaziers Local* 1778, *Brotherhood of Painters,* 137 NLRB 975, 979 (1962); *Local* 991, *International Longshoremen's Assn.,* 137 NLRB 750, 755 (1962).

Appellees submit, therefore, that they did not breach the collective bargaining agreement (Exhibit 1) by failing to place in effect the Joint Board award. Although every effort was made to comply with the award, its self-contradictory terms were impossible of perform-

ance. Furthermore, the Board exceeded its powers by rubber stamping the agreement of the unions without any effort to consider traditional criteria in resolving jurisdictional disputes. Lastly, the Board's powers were limited to deciding which of two or more competing unions was entitled to a particular work assignment. It had no authority to carve appellees' single assignment into separate parts solely to satisfy the competing unions.

C. The facts of this case do not justify an application of either the doctrine of avoidance of damages or mitigation of damages.

Assuming, arguendo, that appellees did breach their contract with appellants by failing to put in effect the Joint Board award, there is nevertheless no justification for the court's Conclusion of Law No. 2 as amended, either under the doctrine of avoidable consequences or mitigation of damages.

The rule is that the burden is on the party whose wrongful conduct caused the damages to prove that the injured party could have minimized the damages by the exercise of due care. *United States* v. *Harris,* 100 F.2d 268, 279 (9th Cir. 1938); *Burr* v. *Clark,* 30 Wn. 2d 149, 190 P.2d 769, 774 (1948); *Norm Advertising* v. *Monroe Street Lumber Co.,* 25 Wn. 2d 391, 171 P.2d 177, 182 (1946). Despite this rule appellants offered no evidence that appellees could have avoided any portion of the damages resulting from appellants' unlawful activities by complying with the Joint Board award. Of course, one of the reasons why there was no such evidence is

that it was impossible for appellees to have avoided any portion of their damages by complying with the award. That award was issued after the appellants' unlawful activity had ceased and appellees' damages had been sustained.

Any argument that appellees could have avoided the damages by complying with appellants' demands at the outset is unjustified. Appellees were entitled by contract to make the assignment and to have the work performed without interruption, notwithstanding any dispute over the assignment (Exhibit 3, p. 5, pars. 1 and 2). Furthermore, the court did not find that appellees' failure to comply with these demands constituted a breach of contract and there was no showing that appellees' failure to comply was unreasonable under the circumstances. A person is only required to use such means as are reasonable under the circumstances to avoid or minimize his damages. *International L & W Union* v. *Hawaiian Pineapple Co.,* 226 F.2d 875, 880 (9th Cir. 1955); *Ward* v. *Painters' Local Union No.* 300, 45 Wn. 2d 533, 276 P.2d 576 (1954); *Lopeman* v. *Gee,* 40 Wn. 2d 586, 245 P.2d 183 (1952); Restatement, Torts, Sec. 918, comment (c). See also, *International Longshoremen's, Etc.* v. *Juneau Spruce Corp.,* 189 F.2d 177, 191 (9th Cir. 1951).

The court's conclusion cannot, therefore, be supported on the theory that appellees could have avoided or minimized their damages.

Appellees also submit that the court's conclusion cannot be supported by an application of the doctrine of mitigation of damages, as discussed by the court

during the argument on post-trial motions (RT 1198-1201). Mitigation of damages, as distinguished from avoidance of damages, is based upon a showing that the wrongful conduct of the defendant was in good faith or reasonable under the circumstances and, although not sufficient to constitute a defense, should be considered in reduction of the plaintiff's damages. However, in tort cases, evidence of good faith and other evidence offered by the defendant in mitigation of damages can only be considered in mitigation of punitive damages, not those damages which are considered compensatory. *Beckwith* v. *Bean,* 98 U.S. 266, 276 (1878); *Bates* v. *Clark,* 95 U.S. 204 (1877); *Nesmith* v. *Alford,* 318 F.2d 110, 121 (5th Cir. 1963); *Penn* v. *Henderson,* 174 Or. 1, 146 P.2d 760 (1944). Such evidence cannot be used by the court to reduce an award of actual damages. Since the damages awarded appellees in this case were compensatory and not punitive, the doctrine of mitigation of damages is not applicable.

Furthermore, even assuming that the doctrine of mitigation of damages could be applied to reduce compensatory damages, that equitable doctrine cannot be applied here for it produces a result which is not compatible with the policy of our national labor laws.

The court, in discussing its conclusion, relied to some extent on the principles announced by the Supreme Court in *Textile Workers of America* v. *Lincoln Mills,* 353 U. S. 448, 77 S. Ct. 912 (1957) (RT 1199-1200). In that case the court held that in suits for enforcement of collective bargaining agreements brought under Section

301, Labor Management Relations Act, 1947 (29 U.S.C. Sec. 185), the substantive law to be applied is federal law which courts are to fashion from the policy of our national labor laws. If that case is applicable here at all, it requires courts to fashion only such remedies as will best effectuate the policy of our national labor laws.

Appellees submit that the application of the doctrine of mitigation of damages to this case produces a result which is inconsistent with the teachings of *Lincoln Mills* for the reason that it would encourage the settlement of jurisdictional disputes by the use of economic force rather than by the peaceful means which are consistent with national labor policy. The effect of the court's remedy is to enable a labor organization to show in mitigation that it engaged in the same unlawful conduct which the Labor Management Relations Act, 1947, sought to prevent as long as it did so for the purpose of enforcing a disputed contractual claim to work. Such a showing hardly seems to justify an application of the equitable doctrine of mitigation of damages.

Appellees submit that the court's conclusion with respect to appellants' cross complaint cannot be squared with the law or with the facts of this case on the basis of any of the theories advanced by the court and discussed above. Accordingly that portion of the court's judgment which reduced the amount of damages awarded appellees by $40,000, in mitigation of damages, should be reversed.

II

Appellees are entitled to recover as damages for the loss of use of the equipment idled by the work stoppages the value of the loss of use measured by reasonable rental value without a 50 per cent reduction of that value because of absence of use.

A portion of the damages claimed by appellees was for the loss of use of equipment which was idled during the work stoppages as a result of the work stoppages. Appellees proposed two methods of measuring the value of this loss of use. The first was rental value based on rates published by Associated Equipment Distributors (A.E.D.) applicable in 1957 (Exhibit 61). The second was cost of ownership based on the formula published by Associated General Contractors of America, Inc. (A.G.C.) applicable in 1957 (Exhibit 62). A.E.D. rates are actually rental rates which include an element of profit, whereas A.G.C. rates represent only the cost of owning the equipment (RT 452-453, 457, 474). A.G.C. rates were used by appellees in bidding for the Ice Harbor contract (RT 491).

Although the A.G.C. rates are not rental rates, the court based its award on those rates (RT 1171-1172) and found that when applied to appellees' equipment, the result was the reasonable rental value of that equipment (CT 69-70, pars. 3 and 4). With respect to the idled equipment, the court allowed rental for a period of only 30 days rather than the 35 days claimed and then reduced that amount by 50 per cent because of absence of use (RT 1145-1146, 1157; CT 71).

As discussed more fully by appellees in their answering brief, below, there can be no dispute as to the use of rental value as an appropriate measure of the value of the loss of use in a case of this type. *Denver Building and Construction Council* v. *Shore,* 287 P.2d 267 (Colo. 1955). Accord, *Local Union* 984, *Int. Bro. of Teamsters, Etc.* v. *HumKo Co.,* 287 F.2d 231 (6th Cir. 1961), *cert. denied,* 366 U.S. 962, 81 S. Ct. 1922 (1961); *Wells* v. *International Union of Operating Engineers, Local* 181, 206 F. Supp. 414, 418 (W. D. Ky. 1962), aff'd, 303 F.2d 73 (6th Cir. 1962). See also, Restatement, Torts, Section 931 (1939). This is particularly true here since there was no evidence offered by appellant of any other measure which the court could have adopted (RT 1146).

Appellees submit, however, that there was no justification for the court's reduction of 50 per cent of the reasonable rental value of this equipment on the basis of absence of use. There is absolutely no evidence in the record which supports the court's finding that such a reduction is reasonable. To the contrary, the only evidence which would justify any reduction was offered by appellees through the witness Mr. Roy F. Johnson, who testified that when equipment is rented or held on a standby basis, which eliminates the necessity of major repairs (RT 468), the A.G.C. rates would be reduced between 20 and 25 per cent (RT 466-467) and the A.E.D. rates 35 per cent (RT 467). Accordingly, to the extent the court reduced the rental value by an amount in excess of 25 per cent, its finding is contrary to the evidence and clearly erroneous.

The court's finding is also not supported by any of the cases cited above, all of which applied rental value as the measure of damages without any indication of a reduction for absence of use. To support its finding, the court mistakenly ignored these cases and apparently relied upon a series of inapposite Court of Claims cases in which rental value was used as a measure of damages and then reduced 50 per cent for absence of use. The first case in this series was *Brand Inv. Co.* v. *United States,* 58 F. Supp. 749 (Ct. of Cl. 1944), a *breach of contract* action in which the plaintiff sought damages from the government for the loss of use of equipment. The court held that the government should compensate the plaintiff an amount which it would have been required to pay if it had taken the machines for use but had not in fact used them. This the court found was the proven rental value discounted 50 per cent. The rental claimed by the plaintiff in that case was a daily rental computed at hourly rates for 109 days (58 F. Supp. at p. 755). These maximum rentals were then reduced by 50 per cent. Here the court refused to award even monthly rental rates, having adopted the A.G.C. cost of ownership rates, and then reduced that minimum rental figure by 50 per cent. Furthermore, in *Brand* there was no indication of any evidence in support of a lesser reduction. These same distinctions apply to the subsequent Court of Claims cases, all of which merely applied the rule in *Brand* without discussion. See *Warren Bros. Roads Co.* v. *United States,* 105 F. Supp. 826, 830 (Ct. of Cl. 1952), where the plaintiff relied on maximum O.P.A. rental rates which included profit; *Morrison-Knudsen*

Co. v. *United States,* 84 F. Supp. 282, 288 (Ct. of Cl. 1949), and *Henry Ericsson Co.* v. *United States,* 62 F. Supp. 312, 318 (Ct. of Cl. 1945).

On the basis of the foregoing, appellees submit that the court's finding that appellees' damages for idled equipment should be reduced by 50 per cent for absence of use is not supported by the evidence or the law.

III

Appellees are entitled to recover as additional damages a reasonable profit markup of ten per cent on those items of damages representing additional costs incurred as a result of the work stoppages.

Appellees claimed as additional damages caused by appellants' unlawful conduct a reasonable profit markup of ten per cent on certain of the damage items. A ten per cent profit markup on direct costs is a customary profit markup in the construction industry on jobs of the type involved here, and is the markup used by appellees in bidding on the Ice Harbor contract and other similar contracts (RT 509).

As a result of the delay in completing its contract, appellees incurred the additional out-of-pocket costs for overhead items and other functions which the court below awarded as damages. The allowance of these expenses does not fully compensate appellees for their damages unless they are also allowed to recover the reasonable profit markup which they could have recovered if

defendants had not interfered with their freedom to employ their labor and capital elsewhere for the period of the delay.

This reasonable profit markup which the court below held could not be allowed (CT 72, par. 4; RT 1146-1147) is the same percentage of profit markup allowed by the District Court on many of the same items of damage awarded in *Morrison-Knudsen Company, Inc.* v. *International Brotherhood of Teamsters, Etc.,* D.C.E.D. Wash. S.D., Civil No. 1105 (Supplemental Findings of Fact, paragraph I, page 3). Although defendant in that case objected to this item of damage on appeal, the award was affirmed by this Court in *International Brotherhood* v. *Morrison-Knudsen Co.,* 270 F.2d 530 (9th Cir. 1959).

IV

Appellees are entitled to recover as damages interest on the amount of damages awarded at the rate of six per cent per annum from January 1, 1959, to the date of judgment, February 21, 1963.

Appellees claimed below that they were entitled to recover, *as damages,* interest at six per cent per annum on the amount of damages awarded for the period from January 1, 1959, to the date of judgment. Six per cent per annum is the legal rate of interest in Washington. R.C.W. 19.52.010. The court denied this claim (CT 72, par. 4) for two reasons: first, that the damages were not liquidated, and, second, that the court had no discretion to award interest (RT 1147).

Although the statement is occasionally made that interest is not allowed as damages in a tort action because the amount of damages is necessarily unliquidated, an examination of the cases discussed in the annotation, Interest on Amount of Damages, 36 A.L.R.2d 337 (1954), will establish that such a statement is false. Where the tort results in injury to or detention, loss, or destruction of property, as in the instant case, the general rule is that interest can be recovered as a part of the damages even though the damages are unliquidated. 15 Am. Jur., Damages, §§ 170, 172; 36 A.L.R.2d 337 (1954); McCormick, Damages, §§ 55, 56 (1935).

Where the property has a market value or where the amount of the loss is ascertainable in light of the evidence submitted, interest is allowed as a matter of right. Where, although the loss cannot be so ascertained, it is pecuniary or material, as distinguished from personal, interest is allowed in the discretion of the trier of fact in order that the injured party will be fully compensated for the loss. Restatement, Torts, § 913(b) (1939); McCormick, Damages, § 56 (1935).

The Washington court has adopted the rule that interest as damages may be allowed as a matter of right even though the amount of the damage is unliquidated. In *Grays Harbor County* v. *Bay City Lumber Company,* 47 Wn. 2d 879, 289 P.2d 975 (1955), a conversion action, the court refused to apply the rule that damages must be ascertainable by computation or reference to a reasonably certain standard and allowed interest where the amount of the loss had to be established by opinion evidence.

The same rule was applied in *J. P. (Bum) Gibbins, Inc.* v. *Utah Home Fire Ins. Co.,* 202 F.2d 469 (10th Cir. 1953), an action to recover damages for injury to equipment caused by defendant's negligence. The court allowed interest from the time of the injury until the date of judgment, holding that the amount of loss could have been determined with reasonable accuracy as illustrated by the evidence relating to replacement and repair costs.

As noted above, where the amount of the loss is not ascertainable, many courts have adopted the rule that interest is allowed in the discretion of the trier of fact, where the loss is of a material or pecuniary nature. This rule is based on the theory that a plaintiff is entitled to full compensation for the loss sustained. The trier of fact is entitled to consider in assessing damages any factors which will enable him to determine whether equity and justice require an allowance of interest to fully compensate the plaintiff. *Miller* v. *Robertson,* 266 U.S. 243, 258, 45 S. Ct. 73, 78 (1924). See also, *Wells Laundry & Linen Supply Co.* v. *Acme Fast Freight,* 85 A.2d 907 (Conn. 1952), where the court allowed interest on the amount of damage to property from the date of the damage and said (at page 909):

> " 'The determination of whether or not interest is to be recognized as a proper element of damage is one to be made in view of the demands of justice rather than through the application of any arbitrary rule.' * * * Interest is allowable upon money found to be due for damage to property if the money has been wrongfully withheld even though the amount due was unliquidated."

Federal admiralty courts have consistently adopted this rule. Perhaps the case most closely in point here is *Yachts, Inc.* v. *The Edward F. Farrington,* 146 F. Supp. 754 (E.D. N.C. 1956), a libel for damages caused by collision, where the damages included the cost of repairs and the value of the loss of use of the ship during the period of repair. See also, *American Smelt. & Refining Co.* v. *Black Diamond S.S. Corp.,* 188 F. Supp. 790 (S.D. N.Y. 1960).

Appellees submit that they were entitled to interest, as a matter of right, on the amount of the damages awarded, all of which could have been ascertained on January 1, 1959, on the basis of the evidence submitted at the trial. In any event, as to those items which could not have been so ascertained, appellees were entitled to interest in the discretion of the court, and the court erred in holding that it had no such discretion.

ANSWERING BRIEF

SUMMARY OF ARGUMENT

1. Appellants' conduct violated Sec. 303(a)(4), Labor Management Relations Act, 1947, and gave rise to a cause of action under Section 303(b) thereof.

A. The evidence below established the existence of a continuing and active dispute between two rival unions over the work of rigging forms on multipurpose cranes.

B. In order to sustain a finding that conduct is in violation of Sec. 303(a)(4), the injured party need not establish the existence of a continuing and active dispute between competing groups of employees.

2. Appellant International Union, acting through its international representatives, participated in and encouraged the actions of appellant Local 1849, which actions were in violation of Sec. 303(a)(4), Labor Management Relations Act, 1947.

3. If appellants are entitled to any judgment on their cross complaint it cannot be for more than nominal damages.

4. Appellants' contention that the trial court's findings with respect to the damages awarded to appellees were not supported by the evidence and are erroneous cannot be sustained.

A. The evidence supported the lower court's award of damages for overhead salaries, property maintenance wages and other miscellaneous costs.

B. The evidence supported the lower court's award of damages for loss of efficiency.

C. Rental value is a proper measure of damages for loss of use of equipment.

ARGUMENT

I

Appellants' Conduct violated Sec. 303(a)(4), Labor Management Relations Act, 1947, and Gave Rise To A Cause of Action Under Section 303(b) Thereof.

A. The evidence below established the existence of a continuing and active dispute between two rival unions over the work of rigging forms on multipurpose cranes.

The first portion of appellants' brief is devoted to a discussion of the evidence which they claim supports the conclusion that the actions of appellants did not violate Section 303(a)(4), Labor Management Relations Act, 1947, for the reason that there was no continuing and active dispute between the Carpenters and the Ironworkers over the work of rigging forms on multipurpose cranes. Assuming, arguendo, that a dispute such as appellants envision is necessary, appellees submit that the evidence below established the existence of such a dispute.

As discussed in considerable detail in appellees' opening brief, above, the work which appellees assigned to the Ironworkers and which thereafter became the subject matter of the dispute was the rigging of *metal, wood and all other types of forms on multipurpose cranes.* This so-

called general rigging assignment prompted an immediate objection from appellant Local 1849 (Exhibit 25). There is no doubt that, at the time of the assignment, the Ironworkers were asserting a claim to the work on the basis of area practice (Exhibit 8, pp. 7-9) and that they had reached no agreement with the Carpenters (Exhibit 8, p. 10). Appellants argue that, thereafter, when the International unions purportedly agreed to divide this general rigging work between them, with the Carpenters taking wood forms and the Ironworkers taking all other rigging work, there was no longer any dispute cognizable under Section 303(a)(4).

Even if the Ironworkers had relinquished to the Carpenters the work of rigging wood forms, this would not support the conclusion that thereafter there was no active dispute between the two unions with respect to the work which was the subject matter of the initial assignment. The Ironworkers would never agree to composite crews (Exhibit 4, p. 8; Exhibit 8, pp. 8-9; Exhibit 11, p. 3; RT 892) and there is no dispute that they continued to demand the work of rigging everything except wood forms. Therefore, the entire purpose and effect of the so-called agreement between the two unions was to give the Carpenters the rigging work on wood forms as long as this could be done in a manner which would not reduce the number of Ironworkers required on the job (Exhibit 53). As long as this could be done, there was no particular reason for anyone to object except appellees. Any argument that appellants resolved the dispute over the work which was assigned to Ironworkers by entering into such an agreement with the competing union must be rejected.

An identical argument was rejected by the National Labor Relations Board in *Engineered Building Specialties, Inc.,* 144 NLRB No. 119 (Oct. 1963), involving a dispute between the Bricklayers and Carpenters over calking work on a building. There the employer assigned the calking work to *one* employee who was not a member of any union. The Carpenters objected to the employee doing the work with the result that the employee became a member of the Carpenters' union. When the Bricklayers discovered that the work was being done by a carpenter, they objected. Thereafter the two International Unions agreed that the calking work should be divided equally among the members of each union. Since there was only one employee doing the work, the employer refused to accept the agreement for the same obvious reason that appellees refused here. The employer later assigned a second non-union employee to the work and the Bricklayers picketed the job.

In the Board proceeding under Section 10(k), Labor Management Relations Act, 1947 (29 U.S.C. Sec. 160(k)), the two unions "seemingly" took the position that their agreement constituted a voluntary adjustment of the dispute requiring a dismissal of the charge. The Board found that since the employer was not a party to the agreement, the jurisdictional dispute was not resolved by that agreement and there was, therefore, reasonable cause to believe the Bricklayers had violated Section 8(b)(4)(D) (29 U.S.C. Sec. 158(b)(4)(D)). The Board determined the dispute by assigning the work to the employee represented by the Carpenters' union.

Although appellees believe that the foregoing fore-

closes appellants' argument as a matter of law, an examination of the record in this case will demonstrate that the asserted adjustment of the dispute between the unions which would be necessary to sustain appellants' argument never existed. Certainly the dispute was not settled at the time of or during the initial work stoppage. (Exhibits 29, 31, 32, 37; Exhibit 7, pp. 27-28.) It is equally clear that after the June work stoppage and the meeting of June 20, 1957, which resulted in the Carpenters returning to work, the rigging, including the signaling, of wood forms on multipurpose cranes was still in dispute (Exhibit 5, pp. 34-35). In fact after that meeting, appellants were not only contesting the assignment of rigging wood forms on multipurpose cranes, but were protesting the assignment of steel forms (Exhibit 40). And, of course, after the meeting on June 20, 1957, the Ironworkers continued to hook on the wood and steel forms on the ground and signal them to position (Exhibit 7, p. 31; Exhibit 40; RT 875, 886-887). There was no showing that the members of Ironworkers' Local 14 who were performing this work ever agreed to relinquish it as a result of the June work stoppage. Certainly the minutes of the meeting on June 20, 1957 (Exhibit 11), and the continued performance by the Ironworkers of the rigging and signaling work on the multipurpose cranes demonstrate that the dispute was far from resolved at the conclusion of the June work stoppage.

Following the June work stoppage, the work proceeded satisfactorily in accordance with the understanding of June 20, 1957 (Exhibit 38). On August 27, 1957, appellants presented to appellees a telegram from President Hutcheson of the Carpenters purporting to show an agree-

ment between the International Unions (Exhibit 43). At that time, they advised appellees they were instructed to put this understanding in effect on the job (RT 93-94; Exhibit 5, pp. 38 and 41). On August 28, 1957, the Carpenters' representatives advised President Hutcheson that the Ironworkers' representative was refusing to meet with them to put the understanding in effect. (Exhibit 5, pp. 38-39.)

On September 5, 1957, appellees protested to the National Joint Board and advised appellants they would not put the understanding in effect until the protest was processed or an equitable settlement reached (Exhibits 46 and 47). At this time the Ironworkers were still stalling and "holding out" (Exhibit 47). Although on September 10, 1957, the Ironworkers' representative denied he was stalling, he admitted that he was also "awaiting confirmation of the copy of understanding placed in the field by the Carpenters" (Exhibit 49). On September 10, 1957, the second work stoppage began. Up to that time, the members of Ironworkers Local 14 had continued to perform the rigging work as they had done since June 20, 1957. And as late as September 13, 1957, appellees were advised by Local 14's business representative that Mr. Lyons, the Ironworkers' International president, denied the existence of any agreement (Exhibit 50).

As late as September 18, 1957, after the second work stoppage had commenced, the Carpenters' president acknowledged that the so-called agreement presented to appellees on August 27, 1957, was only a tentative agreement dependent upon an "equitable solution" and the maintenance of "the status quo insofar as man hours are

concerned" (Exhibit 53). As noted above, the assurance regarding man hours obviously was in response to the Ironworkers' insistence that any agreement to divide the work was conditioned upon there being no decrease in the number of man hours worked by Ironworkers. On the basis of this understanding, the Ironworkers were also willing to work out an equitable solution (Exbibit 54). But, of course, as discussed in appellees' opening brief, no equitable solution could be reached.

On September 26, 1957, the members of Ironworkers' Local 14 had not relinquished the assignment of rigging and signaling wood forms, although "in the open" their International representative was taking the same position as the Carpenters (Exhibit 5, p. 56). This was two days after the Carpenters had returned to work as directed (Exhibits 55 and 56). In fact not even the representatives of the International Unions had reached an agreement at this time. As stated by Mr. Holland in his deposition:

> "We were not in accord, we weren't playing ourselves against the contractor, but we were not in accord and we could not agree on anything to present to the contractor. The only thing we could agree (sic) was the proposal that I made on September 26 . . ." (Exhibit 7, p. 46).

It was not until November 14, 1957, that the International Unions finally reached a definite agreement (Exhibit 8, p. 16; Exhibit 7, p. 46; Exhibit 9, p. 23) which in essence was adopted by the Joint Board. Even then it is not clear that this settled the dispute insofar as it concerned the members of Local 14 who were doing the work. Thus as late as January 13, 1958, President Lyons of the Ironworkers was threatening disciplinary action against

any members of Local 14 who refused to comply with the agreement of November 14, 1957, and the Joint Board award (Exhibit 8, pp. 19-20). Of course, none of the members of Local 14 ever complied with the agreement and so far as appellees know, no disciplinary action was taken.

Appellees submit that the foregoing evidence establishes the existence of an active and continuing dispute between two rival groups of employees over the work which appellants attempted to force appellees to assign to their members and satisfies even the criteria which appellants claim are required to establish a violation of Sec. 303(a)(4), Labor Management Relations Act, 1947.

B. In order to sustain a finding that conduct is in violation of Sec. 303(a)(4), the injured party need not establish the existence of a continuing and active dispute between competing groups of employees.

On the basis of the above evidence, appellants ask this court to reverse the lower court's conclusion and hold that the purported resolution of the dispute removed appellants' conduct from the type proscribed by Sec. 303(a)(4), Labor Management Relations Act, 1947. In support of their argument, appellants rely exclusively on decisions of the courts and the National Labor Relations Board involving the unfair labor practice and administrative provisions of Sec. 8(b)(4)(D) and Sec. 10(k), Labor Management Relations Act (29 U.S.C. Secs. 158(b)(4)(D) and 160(k)). Appellants either ignore or ask this court to overrule all relevant case authority under Sec. 303(a)(4). They also ignore the plain language of the statute which makes it unlawful to engage in the type

of activity involved here where an object thereof is "forcing or requiring any employer to assign work to employees in a particular labor organization . . . rather than to employees in another labor organization."

The principal case which appellants ask this court to overrule is *International Longshoremen's Union, Etc. v. Juneau Spruce,* 342 U.S. 237, 72 S. Ct. 235 (1952), where the Supreme Court affirmed the decision of this court reported at 189 F.2d 177 (9th Cir. 1951). This is the only case to come before the Supreme Court under Sec. 303 (a)(4). The fact that the situation involved in that case is identical to the situation which appellants claim is involved here is evidenced by this court's opinion (189 F.2d at p. 188):

> ". . . Appellee is not in the position of an employer standing neutral in a dispute between two unions. . . . Appellee has always insisted that the work be done by the Woodworkers Union, even in face of the fact that that organization was at one time willing to surrender the work to appellants . . ."

The Supreme Court made it clear that this type of activity gives rise to an action for damages under Sec. 303(a)(4) when it said (342 U.S. at p. 244):

> "The right to sue in the courts is clear, provided the pressure on the employer falls in the prescribed category which, so far as material here, is forcing or requiring him to assign particular work 'to employees in a particular labor organization' rather than to employees 'in another labor organization' or in another 'class.' Here the jurisdictional row was between the outside union and the inside union. The fact that the union of mill employees temporarily acceded to the claim of the outside group did not withdraw the dispute from the category of jurisdictional disputes

> condemned by § 303(a)(4). Petitioners, representing one union and employing outside labor, were trying to get the work which another union, employing mill labor, had. That competition for work at the expense of employers has been condemned by the Act."

In the recent case of *Local* 978, *United Brotherhood of Carpenters & Joiners* v. *Markwell,* 305 F.2d 38 (8th Cir. 1962), where the facts were as appellants assert they are here, the *Juneau Spruce* rule was adopted. There the employer sued for damages alleging violations of Sec. 303(a)(1)(2) and (4). The trial court had entered a judgment in favor of the employer on the basis of a general verdict. The appellate court reversed and remanded the case for a new trial for the reason that it found no violation of either Sec. 303(a)(1) or (2) but only of Sec. 303(a)(4). With respect to that section, the Carpenters, Local 978, contended that the facts did not establish a "true" jurisdictional dispute. As to this the court said (at page 47):

> "While §158(b)(4)(D) and its counterpart § 187(a)(4) are of particular aid in disputes involving two rival unions within an employer organization, it is clear that these sections are also applicable when the dispute might be said to be solely between an employer and a union."

Juneau Spruce has never been modified and unless it is to be overruled here, it supports the disposition of appellants' argument by the court below. The principal case which appellants rely on as overruling *Juneau Spruce* is the Supreme Court's decision in *NLRB v. Radio & Television Broadcast Eng. Union,* 364 U.S. 573, 81 S. Ct. 330 (1961), as interpreted in *Penello v. Local Union No.* 59, *Sheet Metal Workers Int. Assn.,* 195 F. Supp. 458 (D.C.

Del. 1961). Reliance is placed upon *Penello* and the other unfair labor practice cases cited by appellants despite the Supreme Court's statement in *Juneau Spruce,* which was repeated in *Radio & Television Engineers* that the remedies provided by Secs. 8(b)(4)(D) and 303(a)(4) are independent of each other and that no substantive symmetry between the two sections is required. See also, NLBR *v. Radio & Television Engineers,* 272 F.2d 713, 715 (2d Cir. 1959).

Penello, in any event, is not particularly enlightening here for it involved a fact situation clearly distinguishable from this case. *Penello* arose on a petition for injunctive relief under Sec. 10(1), Labor Management Relations Act (29 U.S.C. § 160(1)). Dupont, the employer involved, was engaged in an expansion program consisting of the modernization of existing facilities and the construction of a new plant. The sheet metal work involved in the modernization phase of the program was minor compared to the large volume of such work in the construction phase. During the modernization phase the sheet metal work was done by individuals who were not members of Local 59, the union against which the injunction was sought. Local 59 was not interested in this work but it was anxious to obtain the volume work involved in construction of the new plant. Before the volume work commenced, Local 59 began to bring pressure upon Dupont to subcontract the work to a contractor who would employ members of Local 59. Since this involved added expense to Dupont, negotiations between Dupont and Local 59 broke down. When negotiations failed but before any assignment of the volume work was made by Dupont, Local 59 picketed the job site.

At the trial, the parties agreed that no other group of employees had made a claim for the work and the court expressly found there was no evidence that employees performing the sheet metal work on the modernization phase would have been discharged if Local 59's demands had been met. On the basis of these facts the court found that there was no dispute between rival groups of employees but solely a dispute between Dupont and Local 59. The sole purpose of the picketing was to pressure Dupont to make the initial assignment of work in favor of Local 59.

Even if it were conceded that when no work assignment has been made a labor organization is free to strike or exert other forms of economic pressure upon the prospective employer to obtain the work, it does not follow, necessarily, that once work has been assigned to one group of employees, as it was in the instant case, the labor organization representing the other group is free to engage in a strike or induce a concerted refusal to work for the purpose of forcing a change in the assignment. Therein lies the factual distinction between this case and *Penello* where no assignment had been made and the economic pressure was brought for the purpose of obtaining the initial assignment.

In any event, the result arrived at in *Penello* is questionable. On the basis of the above facts the court concluded that the conduct of Local 59 would have been a violation of Sec. 8(b)(4)(D) if that section were construed alone. However, believing that it must construe that section in conjunction with Sec. 10(k) as interpreted in *Radio & Television Eng. Union,* the court felt compelled to hold that Sec. 8(b)(4)(D) was limited to the type of

dispute which could result in a binding determination under Sec. 10(k). This necessarily meant a dispute between two competing groups of employees with the employer standing neutral. In order to reach this result, the court completely disregarded the plain language of Sec. 8(b)(4)(D).

The court could have avoided its quandary by adopting the position taken by Member Houston and Member Murdock in their respective dissents in *Moore Drydock Company,* 81 NLRB 1108, 1124 (1949), and *Juneau Spruce Corp.,* 82 NLRB 650, 660 (1949). This position was that Sec. 10(k) only comes into play in those situations where the dispute is between two groups of employees and the employer is neutral. Any other type of activity which violates Sec. 8(b)(4)(D) would invoke the normal unfair labor practice procedures. In the light of the decision in *Radio & Television Eng. Union,* these early dissents may well prove to be the proper resolution of the otherwise inevitable inconsistency between these two sections.

To our knowledge, the principles announced by the court in *Penello* have not been adopted by any other court. In fact, those principles are in conflict with such decisions as *Cuneo v. Local* 825 *Inter. Union of Operating Engineers,* 306 F.2d 394 (3rd Cir. 1962), where prior to the decision the disputing groups of employees had agreed to divide the work; *Vincent v. Steamfitters Local Union* 395, *Etc.,* 288 F.2d 276 (2d Cir. 1961), where the dispute was between the union and the employer who had assigned the work to nonunion employees and *McLeod v. Truck Drivers, Chauffeurs & Helpers Local No.* 282, 210 F. Supp.

769 (S.D. N.Y. 1962), where the dispute was between the employer and the union. Furthermore, *Schauffler v. Local 1291, International Longshoremen's Assn.,* 292 F.2d 182 (3rd Cir. 1961), appears to be in conflict despite the attempt by the court in *Penello* to distinguish it (195 F. Supp. p. 473, ftn. 86). The opinion of the district court in *Schauffler,* 188 F. Supp. 203, 213 (E.D. Penn. 1960), indicates that the labor organization involved there made the same argument which appellants make here. That argument was rejected by the courts and the National Labor Relations Board subsequently found a violation of Sec. 8(b)(4)(D), 142 NLRB No. 137 (1963).

In fact, the situation involved in *Schauffler* was similar to the situation involved here. There, as here, the demands made upon the employer by the one union were such that acquiescence involved hiring duplicate crews on a standby basis. Although the two unions had been involved in disputes over the work in the past, this particular action taken by the demanding union for larger crews prompted no objection from the other union since its members were still performing the work and there had been no attempt to reduce the number of its members on the job.

For most of the same reasons discussed above, appellants' reliance on *Safeway Stores, Inc.,* 134 NLRB 1320 (1961), seems to be misplaced. Only two of the five members of the Board joined in the opinion in that case which adopted the reasoning of *Penello.* Two members dissented and Member Fanning concurred for the same reason he had dissented in the original decision which is reported

at 129 NLRB 1. That reason was that the purpose of the union's strike was not to force a change in work assignments but to prevent the undermining of its representative status. In situations identical to the instant case Member Fanning sides with the two dissenting members. See, *Pittsburgh Plate Glass,* 137 NLRB 968 (1962), and *News Syndicate Co., Inc.,* 141 NLRB No. 49, 1963 CCH, NLRB Adv. Sheets, ¶ 12, 171.

Any attempt to harmonize the subsequent decisions of the National Labor Relations Board with the position announced by the two members who wrote the "majority" opinion in *Safeway* would be fruitless. Compare *Pittsburgh Plate Glass,* 137 NLRB 968 (1962), and *News Syndicate Co., Inc.,* 141 NLRB No. 49, supra, with *Hills Transportation Co.,* 136 NLRB 1086 (1962) and *Valley Sheet Metal Company,* 136 NLRB 1402 (1962).

Appellees submit that none of the decisions relied on by appellants can arguably rise to the dignity of even disputing the rule of *Juneau Spruce* and other relevant cases arising under Sec. 303(a)(4). Accordingly, the lower court's conclusion that appellants' conduct violated Sec. 303(a)(4) must be sustained.

II

Appellant International Union, Acting Through Its International Representatives, Participated In And Encouraged the Actions of Appellant Local 1849, Which Actions were In Violation of Sec. 303 (a)(4), Labor Management Relations Act, 1947.

The lower court's Finding of Fact on Liability Issues No. 16 (CT 60) provides in part:

> ". . . the court finds from the evidence introduced at the trial that the defendant International . . . , acting through its international representatives, participated in and encouraged the actions of defendant Local 1849, . . . in inducing and encouraging its members to engage in concerted refusals . . . to work . . . with the object and for the purpose of forcing . . . plaintiffs to assign . . . work to members of defendant Local 1849, rather than to members of Local 14 . . . ."

The court indicated in its opinion (CT 48) that there was sufficient evidence to support appellees' argument that Local 1849 and its business representative were authorized agents of the International Union on the basis of cases such as *International Brotherhood of Teamsters v. United States,* 275 F.2d 610 (4th Cir. 1960), cert. denied, 362 U.S. 975, 80 S. Ct. 1060 (1960), and *NLRB* v. *Millwrights' Local* 2232, *District Council, Etc.,* 277 F.2d 217 (5th Cir. 1960), cert. denied, 366 U.S. 908, 81 S. Ct. 1083 (1961). It preferred, however, to base its ruling on the participation of the International Union in carrying out the unlawful activity (CT 48).

The court noted in its opinion the facts that it felt were of particular significance in supporting this conclusion (CT 48-49) and the record is replete with evidence of the International's involvement in the unlawful activity from the beginning to the end (RT 27-186; Exhibits 20, 21, 28, 29, 37, 38, 40, 43, 44, 45, 52, 53, 55 and 56). Certainly there is evidence that the statement that President Hutcheson had directed him not to return the men to work, which was attributed to Local 1849's business agent in Exhibit 28, was made (RT 114-115, 142-143); that President Hutcheson knew of the statement (RT 177-178)

and did not deny it; that the International representative refused to return the men to work during the June stoppage until appellees met the demands (RT 116); that the men returned to work on June 20 pursuant to the agreement of the International representative (Exhibit 38) despite Mr. Brown's absence (Exhibit 11, p. 18); that the September work stoppage was precipitated by President Hutcheson's wire (Exhibit 43) which appellants advised appellees they were instructed to put in effect on the job (RT 93-94, Exhibit 5, pp. 38-41); and that the September work stoppage ceased immediately following receipt of Mr. Hutcheson's instructions (Exhibits 55 and 56).

Appellees submit that the court's finding of fact, quoted above, is supported by overwhelming evidence, is clearly not erroneous and under Rule 52(a), Fed. R. Civ. Proc., is binding upon this court. See *Lundgren v. Freeman,* 307 F.2d 104 (9th Cir. 1962).

III

If Appellants Are Entitled To Any Judgment On Their Cross Complaint, It Cannot Be For More Than Nominal Damages.

As discussed in our opening brief above (pp. 9-21), the lower court concluded that appellants were not entitled to recover a judgment on their cross complaint for more than nominal damages but that appellees' damages should be reduced by $40,000 in mitigation of damages. Appellants argued below and in their brief here that they are entitled to a judgment on their cross complaint in the amount of $40,000 measured by the wages which allegedly would have been earned by the individual members of

Local 1849 had appellees assigned the work of rigging wood forms to members of that union.

One of the arguments advanced by appellees in support of the conclusion that the court's mitigation theory was inappropriate was that appellees had not breached the collective bargaining agreement (Exhibit 1) by failing to place in effect the November 27 decision of the Joint Board. For the same reasons set forth in that argument, appellants are not entitled to recover any judgment on their cross complaint.

Even if appellees had breached the agreement, appellants would not be entitled to recover a judgment for more than nominal damages. Certainly appellants failed to show any damages which *they* sustained as a result of appellees' alleged breach of contract. Their entire evidence of damages related to the wages which would have been paid to *additional employees*. It was for this reason that the lower court concluded appellants were not entitled to recover more than nominal damages (CT 82). It would be entirely inconsistent with that conclusion for this court to award appellants a judgment for $40,000 based upon the damages allegedly sustained by the individual members of Local 1849. We submit that appellants are prevented from recoving such a judgment under the rule of *Westinghouse Salaried Employees v. Westinghouse Electric Corp.,* 348 U.S. 437, 75 S. Ct. 489 (1955). Contrary to appellants' contention, we do not believe that this phase of the court's ruling in *Westinghouse* has been impaired by *Smith v. Evening News Association,* 371 U.S. 195, 83 S. Ct. 267 (1962).

Westinghouse was an action by a *labor organization* brought under Sec. 301, Labor Management Relations Act, 1957, in which the plaintiff sought to recover on behalf of its individual members accrued wages allegedly due them under the terms of a collective bargaining agreement. Although the majority position in the case is stated in three separate opinions, six of the eight members of the court who participated supported the minimal holding that Sec. 301 did not confer upon federal courts jurisdiction over an action by a union to enforce the uniquely personal rights of individual employees. Although the Supreme Court in *Textile Workers of America v. Lincoln Mills,* 353 U.S. 448, 77 S. Ct. 912 (1957), decided the constitutional questions discussed by Justice Frankfurter in *Westinghouse* adversely to his views, the court did nothing to restrict the holding of *Westinghouse.* This is made clear in the court's opinion (353 U.S. 456, ftn. 6) and in a number of cases decided subsequent to *Lincoln Mills.* See, for example, *Silverton v. Valley Transit Cement Co.,* 249 F.2d 409 (9th Cir. 1957), and *Local Lodge* 2040, *International Assn. of Machinists v. Servel, Inc.,* 268 F.2d 692 (7th Cir. 1959).

However, appellants urge that any portion of the *Westinghouse* rule that survived *Lincoln Mills* has been completely disposed of by *Smith v. Evening News Association,* 371 U.S. 195, 83 S. Ct. 267 (1962). Certainly, as a result of *Smith,* it is no longer true, as many courts had believed, that Sec. 301 confers upon federal courts no jurisdiction over an action by an *individual* employee to enforce his rights under a collective bargaining agreement. But this is the extent of the court's holding. The suit in

Smith was brought by an *individual* for himself and as assignee of 49 other similar employees. Therefore, despite the broad language used, the decision in that case does not undermine the *Westinghouse* rule that such a suit cannot be brought by a union on behalf of individual members merely because of the union's position as the collective bargaining representative of its employees.

The right to the wages that allegedly would have been paid to individual employees is a uniquely personal right. If that right has any value here, it is clear under *Smith* that it is enforceable by those individuals under Sec. 301 either in state or federal court. To allow appellants to collect a judgment measured by those same wages could result in a double recovery. Obviously, appellants suffered no such damages and since they failed to offer evidence of any damages which they sustained, the judgment sought by them must be denied.

There is a further and equally fatal defect to appellants' claim for $40,000 damages even if they were entitled to recover a judgment based on the damages sustained by the individual members of Local 1849. This is that appellants have completely failed to offer any evidence upon which such an award of damages could be based. The entire evidence in support of appellants' damage claim is contained in the report of their accountants (Exhibit 75). In addition to the fact that this evidence is both speculative and conjectural, it is clear that the computations are based on the assumption that compliance with the Joint Board award would have required appellees to hire a duplicate crew composed of Carpenters. This

is contrary to the terms of the award and the assurances of appellants that no such duplication was required. Furthermore, there is no proof that any individual member of Local 1849 lost a single day of work as a result of appellees' assignment of the disputed work. From all that appears in the record, these individuals may have been gainfully employed elsewhere during the entire period covered by appellants' claim.

IV

Appellants' Contention That the Trial Court's Findings With Respect to the Damages Awarded Appellees Were not Supported by the Evidence and Are Erroneous Cannot Be Sustained.

Appellants contend in their brief (pp. 52-59) that the trial court's findings with respect to the damages awarded appellees (CT 70-71) were not supported by the evidence and should be either "set aside or materially and substantially reduced." Their principal arguments are directed against the court's award of damages for idled equipment and for loss of efficiency. Appellees submit that the court's findings on damages were supported by the overwhelming weight of the evidence and are not clearly erroneous. As such, those findings are binding on this court. Rule 52(a), Fed. R. Civ. Proc.

The court's award of damages was based on the finding that the progress and completion of the work on the project were delayed a total of thirty-two and one-half days as a result of the two work stoppages in June and September (CT 69, par. 2). This delay resulted from two factors. First, as the parties agreed,

the two work stoppages lasted for a total period of thirty days (CT 63) and the court found that appellants' unlawful conduct continued throughout both periods (CT 69, par. 1). During these thirty days all progress in pouring concrete stopped because there were no carpenters to prepare pouring forms (RT 481).

During the June work stoppage the concrete pouring and excavation work overlapped (RT 479) and, although the excavation work continued, the concrete construction work was halted (RT 480). If the work stoppage had not occurred the concrete construction work would have continued at the same time as the excavation work was being performed. Therefore although appellants' statement that the overhead expenses in June would have continued anyhow is partially true, it fails to take into consideration the fact that those same expenses were required to be incurred again later for a period of time equal to the period of the June stoppage. Furthermore, appellees deny the claimed admission "that at the time of the June shutdown the entire work force was moved to another area" (App. Brief, p. 58). More than 25 per cent of the work force was off work by the end of the first week of the June stoppage (Exhibit 71, p. 1). During the September work stoppage, work on the entire project was halted.

Each day of interruption in concrete pouring resulted in a corresponding delay in completion of the project as a whole because the method of construction required concrete to be poured in sections on top of one another and it was necessary to wait a fixed mini-

mum time period for drying between pours (RT 377, 481-482). Accordingly, the work stoppages set back the progress of the concrete pouring thirty days with a resulting thirty-day delay in completing the entire project.

As a result of this delay the government extended the project completion date a total of thirty-five days (CT 65, par. 3) thereby recognizing not only the thirty-day delay measured by the actual period of the work stoppages but an additional five-day delay because of loss of efficiency resulting from the September work stoppage (RT 482). The factors which contributed to this efficiency loss were stated by appellees' project manager (RT 486-490, 498-499) and are discussed in detail below. The court found that the loss of efficiency delayed completion of the project by only an additional two and one-half days (CT 69, par. 2).

Having established the period of the delay the court then determined the amount of damages attributable to the delay (CT 70-71). Appellees submit that the evidence was more than sufficient to sustain the court's findings as to the amount of damages.

A. The evidence supported the lower court's award of damages for overhead salaries, property maintenance wages and other miscellaneous costs.

During the work stoppage periods, appellees continued to pay the salaries of overhead personnel who were required to be retained on the job to perform administrative, field supervision, engineering, warehouse, safety, first aid, guard and surveying functions (Exhibit 70, p. 3; RT 491-493, 500). The amount of these over-

head salaries included in the award of damages and references to the evidence supporting that amount are shown in Appendix I, Item 1. This amount did not include overhead salaries of personnel who were engaged in supervising the excavation portion of the work which continued in June (Exhibit 70, p. 3).

During the same periods, appellees continued to pay wages to personnel who were retained on the job to perform operation and maintenance functions which were required to be performed on a continuing basis, whether or not other work continued (Exhibit 70, pp. 3, 4 and 5; RT 500-501). The amounts included in the award of damages for these functions and the transcript references to the evidence supporting those amounts are shown in Appendix I, Items 2(a) through (e).

Appellees also incurred expenses of a continuing nature for insurance, sanitation, electricity, telephone, home office and transportation for the additional period of the delay (Exhibit 70, pp. 5-6; RT 501, 506-508). The amounts included in the award of damages for these items and the transcript references to the evidence supporting those amounts are shown in Appendix I, Items 3(a) through (f).

The authorities support the right of a party to recover damages for fixed expenses and overhead costs paid during a period when he is receiving no return or less than full return, in productive labor.

In *United Electrical R. & M. Workers v. Oliver Corp.*, 205 F. 2d 376 (8th Cir. 1953), the court awarded plaintiff damages caused by a partial shutdown of its plant

during an 18-day strike. These damages included "the expense of maintaining the plant, the salaries of supervisory and professional employees and other essential personnel necessarily retained by the company while the strikes were in progress, property insurance, property taxes, compensation and group insurance, social security taxes, and employees pension liability."

In *Plumbers and Steamfitters Union, Local No.* 598 v. *Dillon,* 255 F. 2d 820, 823 (9th Cir. 1958), this court approved a damage award which included expenses for rent, electricity and telephone services incurred during a period when plaintiff's operation was shut down because of the Union's breach of a contract to supply labor.

This court also affirmed an award of damages for overhead costs and other fixed expenses in *International Brotherhood v. Morrison-Knudsen Co.,* 270 F. 2d 530 (9th Cir. 1959). The damages awarded in that case included overhead salaries, telephone expense, general administrative expense, office rent, transportation expenses and other fixed expenses. See also, *International Union of Operating Eng. v. Dahlem Construction Co.,* 193 F. 2d 470, 472 (6th Cir. 1951); and *Structural Steel and O. I. Ass'n v. Shopmens Local Union,* 172 F. Supp. 354, 361 (D.C. N.J. 1959).

Appellees incurred other additional expenses as a result of the work stoppages. One of these expenses resulted from wage increases which became effective after the work stoppages for various employees, who, but for the work stoppages, would have performed work during

a prior period when the lower wage rates were in effect (Exhibit 70, p. 6; RT 522-523; CT 65). The amount included in the court's award of damages and the transcript references to the evidence supporting that amount are shown in Appendix I, Item 4. The court's award of damages for this additional expense was proper and is supported by *International Brotherhood v. Morrison-Knudsen Co.,* 270 F. 2d 530 (9th Cir. 1959); and *International Union of Operating Eng. v. Dahlem Construction Co.,* 193 F. 2d 470 (6th Cir. 1951).

Another additional expense which was included in the court's damage award (Appendix I, Item 5) resulted from the fact that appellees were required by contract specifications to sandblast the surface area of certain concrete which had been poured prior to the work stoppages (Exhibit 70, p. 7). The parties agreed that appellees incurred the amount of the additional expense which the court allowed (CT 65, par. 5).

The last item of damages listed in Appendix I (Item 6) was based on the court's award of interest at six per cent per annum on certain capital in the form of cash, inventories and retainages which appellants' unlawful conduct deprived appellees from using for the period of the delay. The court reduced the amount claimed for this item by 50 per cent despite the fact that in computing their claim, appellees used the average amount of cash on hand and the minimum amount of retainages which the parties had agreed upon (CT 65-66, par. 7).

This method of compensating a party who has been

wrongfully deprived of the use of money or other types of investment capital is proper. In *Local Union* 984 *Int. Bro. of Teamsters, Etc. v. HumKo Co.,* 287 F. 2d 231 (6th Cir. 1961), cert. denied, 366 U.S. 962, 81 S. Ct. 1922 (1961), the court affirmed an award of damages which included interest at six per cent per annum on the amount of retainage held on the date the strike commenced. This court also affirmed an award which included damages measured by interest on invested capital in *International Brotherhood v. Morrison-Knudsen Co.,* 270 F. 2d 530 (9th Cir. 1959).

B. The evidence supported the lower court's award of damages for loss of efficiency.

Appellees' evidence established that as a result of defendants' unlawful conduct they suffered a loss of efficiency. They contended this delayed completion of the job for a period of five days. On the basis of this contention, the government granted them an additional five-day extension of time in which to complete the contract (CT 65, par. 3). The court found that the loss of efficiency delayed completion of the project by only two and one-half days (CT 69, par. 2). On the basis of this finding, it awarded appellees damages for the wages and salaries paid for the additional two and one-half days.

Appellants assert in their brief that appellees' evidence failed to establish any loss of efficiency. In effect, appellants' entire argument on this point is that appellees did not establish the *same type* of efficiency loss which resulted in an award of damages in *International Brotherhood v. Morrison-Knudsen Co.,* 270 F. 2d 530

(9th Cir. 1959), *Carpenters Union, Local 131 v. Cisco Construction Co.,* 266 F. 2d 365 (9th Cir. 1959), cert. denied, 361 U.S. 828, 80 S. Ct. 75 (1959), and *Curtis v. Puget Sound Bridge and Dredging Company,* 133 Wash. 323, 233 Pac. 936 (1925). But appellees are not required to show and do not contend that their loss of efficiency resulted *primarily* from difficulty and delays in getting men back to work as in *Morrison-Knudsen* and *Cisco* or from mud and slime as in *Curtis*. On the contrary appellees' evidence established that their loss of efficiency resulted from a number of factors.

First, work did not cease abruptly but was preceded by a slowdown in both June and September (RT 486, 82, 86, 87, 96-98). Second, immediately following the work stoppages all of the members of particular crews did not return to work (Exhibit 71, p. 2; RT 487) and people who had been working together as a team prior to the strike were reorganized into different crews which were not as efficient (RT 486-487). Third, because of the fact that all possible concrete had been poured prior to the work stoppages, it was necessary, after the work resumed, for crafts other than carpenters to wait for new forms to be built before they could work at full capacity (RT 487-488). Another factor which was considered in determining the loss of efficiency was that work which otherwise would have been done during the summer was required to be done during winter months when labor is less efficient and pouring costs are increased considerably (RT 488-490, 499).

Appellees submit that this evidence was more than

sufficient to support the court's finding as to the damages resulting from loss of efficiency. See, *Merritt, Chapman & Scott Corp.* v. *Guy F. Atkinson Co.,* 295 F. 2d 14 (9th Cir. 1961).

C. Rental value is a proper measure of damages for the loss of use of equipment.

The last item of damages which the court awarded and which appellants assert was improper was for the loss of use of equipment that was either idled during the work stoppage periods or was required to be worked an additional period of time as a result of the work stoppages. As discussed in our opening brief above, the court reduced the amount which it determined was the reasonable rental value of the idled equipment by 50 per cent because of absence of use. Except for this reduction, the court's award of damages for loss of use of equipment was supported by the evidence and was not clearly erroneous.

Contrary to appellants' assertions, it is evident that appellees were in fact damaged as a result of being deprived of the use of their equipment during the period of appellants' unlawful conduct. This is obviously true with respect to the equipment which was subjected to periods of enforced idleness during the work stoppages since that equipment would otherwise have been working on the job during those periods. It is also true of the equipment which appellees were required to maintain on the job and operate an additional period of time.

This evidence of loss of or prevention of use estab-

lishes the right to recover the value of the loss of use. The general rule applicable in tort actions is stated in Restatement, Torts, Sec. 931 (1939), as follows:

> "§ 931. Detention of Land or Chattels.
>
> "Where a person is entitled to a judgment for the detention of, or for *preventing the use of,* land or chattels, the damages include an amount for
>
> "(a) the value of the use during the period of detention or prevention, or the value of the use of or the amount paid for a substitute, . . .
>
> * * * * *
>
> "*Comment:*
>
> "a. The rule stated in this Section applies where a tort-feasor has converted a chattel which has come back to the owner's possession, either through self-help, judicial proceedings or otherwise, *and where the conduct which deprived the owner of the use of a chattel was not a conversion.*" . . . (Emphasis supplied.)

This principle was applied in *Holmes v. Raffo,* 60 Wn. 2d 421, 374 P. 2d 536 (1962), where the court held that the plaintiff was entitled to recover the value of the loss of use of a pleasure automobile during the time it was being repaired. The court quoted with approval the following statement from *Cook v. Packard Motor Car Co. of New York,* 88 *Conn.* 590, 92 Atl. 413 (1914):

> ". . . The value of an article to its owner, as Sedgwick points out, lies in his right to use, enjoy and dispose of it. These are the rights of property which ownership vests in him, and whether he, in fact, avails himself of his right of use does not in the least affect the value of his use. 1 Sedgwick on Damages (9th Ed.) § 243a. His right to the use of his property is not diminished by the use the owner

> makes of it. His right of user, whether for business or pleasure, is absolute, and whoever injures him in the exercise of that right renders himself liable for consequent damage. . ." (374 P. 2d at page 541.)

As discussed in our opening brief, appellees proposed alternative methods of measuring the value of this loss of use. The lower court adopted the cost of ownership measurement based on the formula published by Associated General Contractors of America, Inc. (Exhibit 62, RT 1171-1172). In their brief (pp. 55-56) appellants object to the "rentals" which result from the use of those rates despite the fact that the parties stipulated that both the A.E.D. and A.G.C. rates shown on Exhibit 68, Schedule K, would have been reasonable charges for appellees' equipment if it were rented (RT 497-498). This stipulation was made after the witness, Roy F. Johnson, had testified at length as to the amount of rent which appellees' equipment would have commanded in the Ice Harbor area (RT 445-465).

The ordinary method of measuring the value of the loss of use of equipment in a case such as this is rental value as demonstrated in the labor and Court of Claims cases hereafter discussed.

In *Denver Building and Construction Council v. Shore,* 287 P. 2d 267 (Colo. 1955), plaintiff sought to recover damages caused by defendant's unfair labor practice which resulted in idling heavy equipment on the job. The court held that the proper measure of damages was the fair rental value of the equipment during the period plaintiff was prevented from using it.

In answer to defendant's contention that the damages should be measured by loss of profits, the court said (at page 273):

> "It is impossible to allocate to each of several heavy machines on the job the proportion of the over-all profit attributable to the agency of each thereof. Apparently for this reason the rule has generally been adopted that where through unlawful or wrongful acts of defendants heavy equipment has been kept idle and the work expected to be accomplished thereby delayed, the fair rental value of such equipment during the period of prevention of its use is generally adopted as a proper measure for determination of the extent of damage.
>
> * * * * *
>
> "Highway construction machinery has a well-established, recognized rental value which, in this case, was testified to by competent disinterested witnesses.
>
> * * * * *
>
> "While it is true that the loss of use rule in the calculation of damage under circumstances as here detailed is more usually applied to instances where actual possession of the property is taken and detained by defendants and plaintiff is totally deprived thereof, we fail to see any merit in defendants' contention in the instant case that plaintiff retained actual possession of his machines and equipment. While it is undoubtedly true that defendants did not actually take possession of said equipment, they deprived plaintiff of the use thereof just as effectively as if they had put it under lock and key. When the members of the Engineers' Union violated their contract and walked off the job, individually refused to cross the picket line and, supported by the union in refusing to furnish union members to operate said machines, they completely immobilized and rendered entirely useless all of said machinery to the same extent as though it had

> been retained in their possession and actually impounded. It is simply a difference in the method of depriving the plaintiff of the use of his property and is ineffective to relieve defendants of liability for their breach of contract."

In *Local Union,* 984 *Int. Bro. of Teamsters, Etc. v. HumKo Co.,* 287 F. 2d 231 (6th Cir. 1961), cert. denied, 366 U.S. 962, 81 S. Ct. 1922 (1961), the court affirmed an award of damages which included rental value for loss of use of equipment that had been idled during a work stoppage caused by the union's unlawful secondary boycott activity. Commenting on the contention that the damage awards were excessive, the court said (at page 242):

> "Responsible officials of HumKo testified as to losses sustained by that company through the work stoppage brought about by the secondary boycott; Mr. Kuhne . . . who had a background of thirty years as a contractor, testified as to the reasonableness of the charges for equipment that was idled by the work stoppage."

Another recent case in which rental value for idled equipment was used as the measure of damages caused by an unfair labor practice is *Wells v. International Union of Operating Engineers,* Local 181, 206 F. Supp. 414, 418 (W.D. Ky. 1961), aff'd, 303 F. 2d 73 (6th Cir. 1962). Here the court accepted testimony of the plaintiffs as to the reasonable rental value of the equipment as proof of the extent of the loss.

Damages measured by rental value for the loss of use of equipment were also awarded by the trial court in *Morrison-Knudsen Company, Inc. v. International*

Brotherhood of Teamsters, Etc., Civil No. 1105 (Supplemental Findings of Fact, paragraph I, Item 8). Despite the union's claim on appeal in that case that the A.G.C. and A.E.D. "rental rates" were not the proper measure of damages for idled equipment, this court affirmed the award. *International Brotherhood v. Morrison-Knudsen Co.,* 270 F. 2d 530 (9th Cir. 1959).

This same measure was applied in the Court of Claims cases discussed in our opening brief where, because of the government's unauthorized stop order or other breach of contract, work on the project was delayed and equipment either idled or held on the job for an additional period of time. See, *Brand Inv. Co. v. United States,* 58 F. Supp. 749 (Ct. of Cl. 1944); *Warren Bros. Roads Co. v. United States,* 105 F. Supp. 826, 830 (Ct. of Cl. 1952); *Henry Ericsson Co. v. United States,* 62 F. Supp. 312 (Ct. of Cl. 1945); and *Morrison-Knudsen Co. v. United States,* 84 F. Supp. 282 (Ct. of Cl. 1949).

Appellants' arguments that rental value was an inappropriate method of measuring the value of the loss of use in this case have no merit. Aside from matters already discussed above, the only "argument" found in Exhibit 74, which appellants state contains their principal argument, is the accountant's legal opinion of the proper method of measuring loss of use (p. 18). Appellants advance no authority to support this opinion and it is contrary to the authorities discussed above.

The other argument advanced by appellants is that appellees did not show that they would have or could

have rented the equipment or used it elsewhere "during the dispute" or "after completion . . . of the . . contract." Of course, if appellees could have rented or used the equipment elsewhere during the dispute they would have been required to have done so in order to avoid their damages. It is admitted by appellants that appellees could not have done so. Any argument concerning what appellees would or could have done with the equipment after completion of the contract is completely out of place here. The argument certainly has no merit with respect to the equipment which the court found was idled during one or both work stoppage periods (CT 69, par. 3). The damages with respect to that equipment were sustained in June or September, 1957, when appellants prevented its use by appellees in an income operation. The argument has no more merit with respect to the equipment which the court found was worked continuously (CT 69-70, par. 4). That equipment was required to be used an additional period of time as a result of the work stoppages.

Furthermore, the argument that appellees were required to show that they could have rented or used the equipment elsewhere is not supported by the authorities. In *Brand Inv. Co. v. United States,* 58 F. Supp. 749, 751 (Ct. of Cl. 1944), the court rejected the contention that damages should not be awarded because "plaintiff was not in the business of renting machines to others; that it would, probably, not have rented them even if they had not been tied up on this job by the indefiniteness of the duration of the stop order; that it has not

shown that it had any other job on which it could have used them itself if they had not been tied to this job."

Moreover, Restatement, Torts, Sec. 931 (1939), refutes appellants' contention. Comment on Clause (a) states:

> "b. The owner of the subject matter is entitled to recover as damages for the loss of the value of the use, *at least the rental value of the chattel* or land *during the period of deprivation.* This is true *even though the owner in fact has suffered no harm through the deprivation as where he was not using the subject matter at the time* or had a substitute which he used without additional expense to him . . . (Emphasis supplied.)

On the basis of the foregoing, appellees submit that the court's use of rental value as the measure of the damages sustained by appellees as a result of the loss of use of their equipment was proper.

CONCLUSION

Appellees respectfully submit that the portion of the District Court's judgment which resulted in a reduction of appellees' damages by the amount of $40,000, in mitigation of damages, should be set aside and that appellees' judgment should be increased by $40,000 together with a reasonable profit markup of ten per cent on damage Items 1 through 7 (CT 70), interest at six per cent per annum on the total amount of damages from January 1, 1959, to February 21, 1963, and the sum of $38,695 as additional damages for the loss of use of equipment idled by the work stoppages.

In all other respects the District Court's findings of fact and conclusions of law in support of the judgment were supported by the evidence and the law and, subject to the above modifications, the court's judgment should be affirmed.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

CHARLES J. McMURCHIE
Of Attorneys for
Appellees-Appellants

APPENDIX I

Item	*Amount Allowed*	*Transcript References To Evidence Supporting Amount*
1. Overhead salaries	$30,007.56	Exhibit 69, Item 1. See also, CT 64.
2. Property maintenance wages for:		
(a) Maintenance of pumps	6,624.29	CT 64.
(b) Electrical installation system	5,848.11	Exhibit 68, Item 2(b) p. 2, Schedule B.
(c) Air and water lines	2,241.30	Exhibit 68, Item 2(c), p. 2, Schedule C.
(d) Concrete curing	872.13	CT 64.
(e) Batch plant	1,077.00	Exhibit 68, Item 2(c), p. 2, Schedule E; Exhibit 69, p. 2
3. Miscellaneous costs for:		
(a) Insurance	3,360.00	Exhibit 67.
(b) Sanitation	815.41	CT 64.
(c) Electric power	6,258.00	CT 64.
(d) Telephone and teletype	593.70	CT 64.
(e) Home office expense	8,750.00	Claim of $17,500 (CT 64) reduced 50% (RT 1155)
(f) Transportation expense	1,866.00	CT 64
4. Wage increases after January 1, 1958	8,056.55	Claim of $18,798.62 (CT 65, par. 4, Exhibit 68, Item 5) reduced to 30 days and then by 50% (RT 1144, 1155-1156).
5. Sandblasting	3,828.25	CT 65, par. 5.
6. Interest on invested capital	3,119.50	Claim of 6,239.00 (CT 65-66, par. 7, Exhibit 68, Item 8, Exhibit 70, p. 8) reduced 50% (RT 1145, 1156).

United States Court of Appeals

FOR THE NINTH CIRCUIT

C. J. MONTAG & SONS, INC., et al, *Appellees-Appellants,* vs. INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al, *Appellants-Appellees.*	No. 18875
HOLMAN ERECTION COMPANY, INC., *Appellee,* vs. INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al, *Appellants.*	No. 18876
CURTIS CONSTRUCTION CO., a corporation, *Appellee,* vs. INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al, *Appellants.*	No. 18877

Appeal from the United States District Court for the Eastern District of Washington, Southern Division

HONORABLE WILLIAM J. LINDBERG, *Judge*

ANSWER AND REPLY OF APPELLANTS-APPELLEES TO MONTAG No. 18875, and REPLY TO HOLMAN No. 18876 and CURTIS No. 18877

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KERSHAW'S, INC.

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United States Court of Appeals
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Honorable William J. Lindberg, *Judge*

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ANSWERING BRIEF TO MONTAG

COMMENT ON APPELLEES' STATEMENT OF THE CASE

Appellant takes exception to part of the Statement of the Case set out in the Montag Brief at page 4 thereof, and reciting as follows:

> "In April, 1957, appellees assigned the work of rigging both the metal and wood forms on multi-purpose cranes to members of the Iron Workers Union Local 14 (see p. 57, par. 7). This assignment was made after an investigation disclosed that the *established practice in the locality* was to assign the rigging of all forms on multi-purpose cranes to members of the Iron Workers Union. (See p. 57, par. 8.)
>
> "Appellants objected to the assignment and contended that the work of rigging wood forms belonged to members of the Carpenters Union. (See p. 58, par. 9.) At no time was there an order of certification of the National Labor Relations Board determining the bargaining representative for employees performing rigging work at the Ice Harbor Dam project (See p. 57, par. 6)." (Emphasis supplied.)

It will be noted that the assignment by appellees was not made after "an investigation disclosed that the established practice in the locality . . ." but was made "as a result of written replies to inquiries addressed to contractors at other major dam projects in the *Pacific Northwest* . . ." (See Appellant's Opening Brief, Appendix p. 71, par. 8.) By exhibit 3 (Procedural Rules and Regulations of the National Joint Board) at page 4, par. (b), it is provided that the contractor shall assign disputed work in accordance with the established practice in the local area, and that the

local area for the purpose of determining the established practice shall be defined ordinarily to mean the geographical area of the local Building and Construction Trades Council in which the project is located.

Appellees were bound by the collective bargaining agreement (see exhibit No. 1) which provided that where there were conflicting jurisdictional claims the procedure of the National Joint Board for Settlement of Jurisdictional Disputes should govern. (See exhibit 1, p. 12, Sec. 2 et seq.) However, prior to the commencement of work, or the assignment of any work, appellees intended to avoid, and steadfastly refused to be bound by, the collective bargaining agreement or the procedure of the Joint Board. (See exhibit 4, Deposition of H. H. Brown, pp. 4-6, pp. 9-16; testimony of Guess p. 25, Appellant's Opening Brief, etc.)

SUMMARY OF ARGUMENT

1. The trial court's action in reducing appellee's damages by $40,000.00 is clearly supported by the evidence, and equity; the court's conclusion did not exceed its powers, which were properly exercised because Montag breached the collective bargaining agreement between Montag and Carpenters, appellants. The trial court should have awarded damages to Carpenters, appellants, but in any event its application of equity was justified.

2. Appellees are not entitled to recover the damages for claimed loss of equipment without deduction, nor should they be permitted under the facts to recover the rental value awarded.

3. Appellees were not entitled to recover any profit markup of 10%.

4. Appellees were not entitled to recover interest on the amount of damages.

ARGUMENT

I.

The trial court's action in reducing appellee's damages by $40,000.00 is clearly supported by the evidence, and equity; the court's conclusion did not exceed its powers, which were properly exercised because Montag breached the collective bargaining agreement between Montag and Carpenters, Appellants. The trial court should have awarded damages to Carpenters, appellants, but in any event its application of equity was justified.

This part of the brief will first answer appellee-appellant Montag's appeal. Montag will be referred to as appellees.

Appellant has discussed the first arguments made by appellees in their brief, at pages 48 to 51, of its Opening Brief. Appellees suggest that *Textile Workers of America v. Lincoln Mills,* 353 U.S. 448, does not impair *Westinghouse Salaried Employees v. Westinghouse Electric Corp.,* 348 U.S. 437, and that the court lacked jurisdiction to award the appellants damages, measured by wages claimed to be due individual employees of Local 1849. Appellees likewise claim that *Smith v. Evening News Assn.,* 371 U.S. 195 does not impair *Westinghouse,* supra, and that the holding in *Smith v. Evening News,* supra, is limited to the proposition that courts have jurisdiction under Section 301 only over actions by *individual employees.*

The appellant has the support of the study reflected in the *Proceedings of the Section of Labor Relations Law* of the American Bar Association, Part II, just published. Here we find in discussion of the minority committee report of the Special Warrior and Gulf Committee the following:

> "Finally in *Smith v. Evening News Assn.* 371 U.S. 195 (1962), the Supreme Court made clear that unions are free to bring suits, under Section 301, to enforce individual and group rights created by collective agreements. In so ruling, the court reversed its prior holding, in *Westinghouse Electric Corp. v. Westinghouse Salaried Union,* 348 U.S. 437 (1955), and effectively deprived proponents of the Warrior and Gulf rationale of a supporting argument in behalf of that rationale.
>
> "As long as *Westinghouse* remained the law, it was argued that the union's only alternative to arbitration was a strike, since the Westinghouse rule precluded union resort to the courts. And, of course, if a particular labor contract should contain a broad no-strike clause, there was just no alternative at all to arbitration.
>
> "But with the reversal of *Westinghouse* by *Evening News,* that argument has completely disappeared. Now, a union has the same right as a party to a commercial contract to: (1) arbitrate matters which the contract makes arbitrable, and (2) sue directly on matters which are not arbitrable under the contract" (Page 224).

Appellees' whole argument directed to the proposition that they did not breach the collective bargaining agreement is the same argument repeatedly made to the trial court. In essence, the appellees say they do not accept the award of the National Joint Board for which they bargained. (See Exhibit 1, p. 12, sec. 2 et

seq.) The National Joint Board, acting as the arbitrator, determined the matter submitted to arbitration. Appellees refused to accept the award. The same publication to which reference has just been made, that is, the ABA publication of its *Section on Labor Relations Law,* clearly indicates that appellees were in breach of their agreement. (See p. 196, et seq. of *Section of Labor Relations Law.*) Consideration of this material makes it quite plain that the conclusion of the report on the so-called Warrior and Gulf Triology (*United Steel Workers v. Warrior and Gulf Navigation Co.,* 363 U.S. 574; *United Steel Workers v. American Manufacturing Co.,* 363 U.S. 564; *United Steel Workers v. Enterprise Wheel & Car Corp.,* 363 U.S. 593) is correct:

> "In enforcing arbitral awards, the lower courts generally have been true to the Supreme Court's mandate that the merits of the decision not be reviewed. At least one court, however, has indicated that it would not enforce an award which was contrary to 'public policy,' and another appears to have reviewed the merits of an award under the guise of determining whether the arbitrator 'exceeded his authority.' In accordance with *Enterprise Wheel,* an arbitrator's award thought by the court not to draw its 'essence' from the collective bargaining has been refused enforcement" (p. 206.)

It is clear that none of the exceptions listed lend any aid or comfort to appellees' position here.

We think it plain that the court properly mitigated the damages of appellees. (See Opening Brief of Appellants, Carpenters, p. 30, p. 50.)

Another Appellate Court decision supporting the

District Court in this case is *Local* 127, *United Shoe Workers v. Brooks Manufacturing Co., et al,* 298 F. 2d 277, where the court makes plain its broad scope of authority in fashioning the federal remedy indicated by *Textile Workers v. Lincoln Mills,* 353 U.S. 448.

This court in *International Longshoremen's etc. v. Juneau Spruce Corp.,* 189 F. 2d 177, implies the power to mitigate damages where they are the creation of a litigant's "uncompromising attitude."

> "Appellants requested the court to give certain instructions which would have set out the policy of the Labor-Management Relations Act in respect to some of the labor disputes. These, appellants assert, would allow the jury to consider appellees' 'uncompromising attitude' in regard to negotiating a settlement, this as a defense by appellants or in mitigation of damages. This condition assumes that appellee had a duty to bargain with appellants in an effort to reach a settlement. Such is not the case. Appellee, who had a contract with the International Woodworkers of America covering the same work, was under no duty to bargain with appellant with respect to such work nor bow to appellant's demands in order to minimize its damages" (P. 191).

Obviously the ingredients of "uncompromising attitude" were apparent in abundance, in appellees' refusal, at any time, to accept the decision of the National Joint Board which, after full hearing, made its award. If appellees can effectively renounce an award which they do not like, then such actions, if permitted, will stultify the full Congressional policy, and will permit at will, the deliberate violation of contracts by

parties who can rely upon the sterility of the law to fail to fashion a remedy which will enforce their obligations.

II.

Appellees are not entitled to recover the damages for claimed loss of equipment without deduction, nor should they be permitted under the facts to recover the rental value awarded.

To proceed further than our argument in our Opening Brief would be repetitious, and we therefore refer the court to our Opening Brief, pp. 54-56, to exhibit 74 at pp. 16 and 17 of the exhibit, and to further argument.

III.

Appellees were not entitled to recover any profit markup of 10%.

We direct our attention to the profit markup. The extent of any testimony supporting a claim for a ten percent profit markup is found in the statement of Mr. Burton M. Smith, CPA (exhibit 68, p. 7) where he states: "This is an arithmetical computation which is accurate." There is no other testimony of any substantive character in appellees' case than Mr. Smith's that supports any claim for reasonable profit markup. The evidence here falls far short of reaching the stature of evidence which the Supreme Court of Washington considered lacking in *National School Studios, Inc., appellant, v. Superior School Photo Services, Inc., et al, respondents,* 40 Wn. 2d 263; 242 P. 2d 756. In the Washington case at page 274, we find the following:

"In proof of the amount of damages sustained by it, appellant offered the deposition of its president taken on written interrogatories. Upon his direct examination, this officer testified:

" 'Q. Was there any profit to the plaintiff from the business obtained by the defendant, Victor G. Lien, for the plaintiff during the years 1949-50? A. Yes. Q. If you answer that there did accrue to plaintiff profit from such business so obtained how much did such profit amount to? A. $4,957.41. Q. If you answer that there did accrue to plaintiff such profit, how do you arrive at the amount of profit so accruing to plaintiff? A. We made 10% of the dollar volume.'

"When the deposition was read at the trial, respondent Lien moved to strike the last answer quoted above on the ground that it was only the witness' conclusion unsupported by any factual proof.

"After counsel had argued the matter, the trial court denied the motion to strike without prejudice to respondents' right to renew their motion later in the trial. The court indicated considerable doubt regarding its ruling, stating in part:

" 'My feeling about the matter is this: The net profit is the ultimate question in issue on this phase of the case, and the defendant, I think, is entitled to know how that profit is computed.'

"The same motion was made by respondents when the portion of the deposition was read relating the profit made by appellant in 1948-49 from business produced by respondent Lien. The president testified that its profit for that year from Lien's business amounted to $5,765.94 and, when asked how this figure was arrived at, again, stated: 'We made 10% of the dollar volume.' The trial court made the same ruling as before.

"Appellant produced no other evidence as to its loss of net profit except the testimony of its president above quoted.

"In its memorandum opinion filed subsequent to the close of the trial, the court stated on this point:

" 'Plaintiff is seeking both damages and an injunction. The plaintiff has shown a very substantial loss in gross revenues and customers. Plaintiff declined to show its costs, and has not proved any reliable basis for determining the amount of its loss, if any, in net profit. Consequently, plaintiff is not entitled to recover damages.'

"In our opinion, the trial court was correct in denying appellant judgment for damages because of the inadequacy of its proof. The burden was upon appellant to prove with reasonable certainty its loss of profits caused by respondents' acts. The bare, oral statement by appellant's president that it made ten percent profit on the dollar volume of the business obtained by Lien is a mere conclusion. It does not constitute the reasonable certainty of proof which is required under the circumstances shown to exist in this case.

"It is common knowledge that such a corporation as appellant (which was doing business in nearly every state in the Union) must keep detailed books of account from which its *net* income can be ascertained. It would have been a simple matter to have computed such income with respect to the portion of its business obtained by Lien. Appellant had no difficulty in ascertaining from its ledger sheets the gross dollar volume of business obtained by Lien for the two years prior to his leaving its employ.

"From the record before us, it appears that in 1950-1951 Superior had grossed $34,993.83 in business from schools which had been appellant's customers in either or both of the two preceding years. In the absence of reasonable certain proof as to what appellant's net profit would have been had it continued to enjoy this business, there is no competent evidence upon which a judgment

can be based. The burden was upon appellant to furnish such proof, and this it failed to do."

In *Flame Coal Co. v. United Mine Workers of America,* 303 F. 2d 39 (6 cir. 1962), the court had occasion to consider a claim for lost profits. In this case there was considerable testimony about the earnings of the plaintiff. There was evidence of losses by reason of the failure to fill orders for coal. There was further testimony of prices that would be involved. There was testimony concerning the plaintiff's earned net income and its taxable income for several years. An accountant who testified for the plaintiff had worked up a schedule which purported to compute the profits lost by the companies in the cancellation of orders. He based his calculations in part upon facts in evidence and in part upon his examination of books and records of the plaintiff company. Although the court was of the opinion that there was a sufficiency of plaintiff's proof to establish compensatory damages, it did not permit that allowance because of the admission of an exhibit without a basis or foundation for the calculations thereon. In this case there is no proof of any profit, and to permit an allowance of profit on the bare statement that 10% is "marked up" or is a reasonable "arithmetical computation" is handing the whole matter over to pure speculation and conjecture.

Appellees also seek a duplication of recovery, and urge the court to allow in some instances both expenditures and loss of profits. The Supreme Court of Washington denied such duplication of recovery in *Platts v.*

Arney, 50 Wn. 2d 42, 47 (1957), 309 P. 2d 372, where it said:

> "However, where the plaintiff sues for his loss of profit, he cannot recover in addition to this the expenditures which he would have had to make in any event to carry out his own promises under the contract. See annotation: 17 ALR 2d 1300, Sec. 6."

What the court said in the foregoing case makes good law here and it should be applied.

IV.

Appellees were not entitled to recover interest on the amount of damages.

Appellees claim that they are entitled to interest as a matter of right on the amount of the damages claimed, all of which could have been ascertained (ascertained by whom and how?) on January 1, 1959. The first answer to this contention of appellees is that no court in any 303 case, has allowed interest, so far as our examination of the cases discloses. The special statutory enactment of Congress does not provide for interest. And the court is aware of the fact that in view of the nature of this action and the conflicting testimony concerning damages, considered with the method of proof of appellees (almost exclusively composed of hypothesis and estimate), there could be no ascertainment of damages in the sense that the law requires. The ascertainment of damages is not determined by the fiat of appellees' claim.

Counsel cites *Grays Harbor County v. Bay City Lumber Co.* 47 Wn. 2d 879, 289 P. 2d 975, as authority

for their claim. The Washington case upon which reliance is placed involved an action of conversion, where the general rule permits award of interest. The claim that the case is authority for appellees' position here, is not borne out by the Washington cases, and their interpretation of Washington law is completely diluted and distinguished by *Lamb v. Railway Express Agency,* 51 Wn. 2d 616, 619, 320 P. 2d 644, where the court said:

> "Appellant assigns error to the allowance of interest from the date of the loss, on the ground that under Washington law an unliquidated claim does not bear interest. This assignment is well taken. *Grays Harbor County v. Bay City Lumber Co.;* 47 Wn. 2d 879, 289 P. 2d 975."

In *Meyer v. Stromm,* 37 Wn. 2d 818, 829, 226 P. 2d 218, the court held:

> "Interest was disallowed by the trial court on the ground that Meyer's claim was unliquidated. The principle is well established that where a claim is unliquidated interest thereon is not allowed. *Brewster v. State,* 170 Wn. 422, 16 P. 813; *Fiorito v. Goerig,* 27 Wn. 2d 615, 179 P. 2d 316; *State v. Northwest Magnesite Co.,* 28 Wn. 2d 1, 182 P. 2d 643.
>
> "Meyer contends that Stromm's cross-complaint relative to the Karr well involved a separate transaction, and that Stromm admitted that $1,704.81 of Meyer's claim (on which Stromm had paid $1,273.25) was well founded. He reasons that the balance due on this $1,704.81 is therefore a liquidated claim, on which he is entitled to interest at the rate of 6% per annum from the date it became due. As so computed, Meyer's interest item is $74.90.

> "Meyer's argument overlooks the fact that the amounts which he alleged Stromm owed under the lease were not merely what Stromm admitted ($1,704.81), but an amount in addition thereto. Hence, Meyer's total claim was unliquidated, even though Stromm conceded that this much of it was proper. The matters of the rent for drilling the Erickson well, the casing used in that well, and the hourly rental rate were all in dispute, in addition to Stromm's counterclaim involving the Karr well. Where the demand is for something which cannot be established without evidence regarding the quantity or amount of the thing furnished, interest will not be allowed prior to judgment. *Wright v. Tacoma,* 87 Wn. 334, 151 Pac. 837."

In *Jellum v. Grays Harbor Fuel Company,* 160 Wn. 585, 593, 295, Pac. 939, the Washington court held that the claim involved, being an unliquidated claim allowance of interest, was improper.

In *Woodridge v. Johnson,* 187 Wn. 191, 194, 59 P. 2d 1135, the Washington court makes clear that under Washington law the present claim is not entitled to interest:

> "The general rule is that interest will not be allowed upon unliquidated demands prior to the time when such demands are merged in the judgment, but to this rule there are certain exceptions, one of which is that interest will be allowed upon unliquidated demands when the amount thereof can be ascertained by mere computation. Where the demand is for something which requires evidence to establish the quantity, or the amount of the thing furnished, or the value of the services rendered, interest will not be allowed prior to judgment."

Also see: *Phifer v. Franklin J. Burton,* et al, 141 Wn. 166, 251 Pac. 127; and *Powelson, respondent, v. City*

of Seattle, appellant, 87 Wn. 616, 36 ALR 2d 475, 36 ALR 2d 489.

REPLY BRIEF TO MONTAG, HOLMAN and CURTIS

SUMMARY OF ARGUMENT

1. Appellants' conduct did not violate Section 303(a) (4), Labor-Management Relations Act, 1947, and its conduct did not give rise to an action or cause of action under Section 303(b) thereof.

2. The appellant International Union, did not participate in and encourage the action of Local 1849.

ARGUMENT

I.

Appellants' conduct did not violate Section 303(a) (4), Labor-Management Relations Act, 1947, and its conduct did not give rise to an action or cause of action under Section 303(b) thereof.

Stuart Chase has written that "words are slippery in any language." Aristotle and the Aristotelian philosophers probably had the words or idea in mind when they developed a syllogism which they hoped would demonstrate truth. The writer of this brief has long been persuaded that Mr. Chase's words aptly describe the problems posed by the statutory provisions involved; that Aristotle et al could never come up with a major, minor, and ergo; and that one highly versed in semantics might be more helpful to the learned law fraternity in deciphering and reconciling the posi-

tives and the negatives when elements of 10(K) and N.L.R.B. are added to 303 with its A's and B's. However, faced with the problem, but absent the assistance, we suggest a determination in the instant case.

We cannot find that a court has had to cope with the precise situation developed in this case.

Surely a jurisdictional dispute as defined in Section 303(a) (4) is no more or less a jurisdictional dispute, whether the court attempt to define it in a 303(b) action, or in a proceeding before it involving its interpretation in a 10(K) proceeding. *International Longshoremen's, etc. v. Juneau Spruce,* 189 F. 2d 177, and 342 U.S. 237, provides no absolute guides other than to tell us that the administrative action and procedure of the Board in a 10(K) hearing is not a prerequisite to a civil action in a 303(b) proceeding. Approval of *Juneau Spruce* in cases cited has dealt with the independent nature of the civil and Board proceedings.

If it be assumed that an appellate court, in review of a proceeding of the National Labor Relations Board which refused to intervene in a dispute and to hold a 10(K) hearing, reasoned that in accord with *Penello v. Sheet Metal Workers Local Union* No. 59, 195 F. Supp. 458, and *Highway Truck Drivers, etc. and Safeway Stores, Inc.,* 134 NLRB 130, 1961, p. 40 Appellant's Opening Brief, the Board was correct, could it or would it in a 303(b) proceeding hold that an action would lie? In aid of the proposition that this theoretical proposal is not fanciful, we refer to the language of

the Board in the *Highway Truck Drivers* case, supra, where it was stated:

> "Certainly it was not intended that every time an employer elected to reallocate work among his employees or supplant one group of employees with another, a 'jurisdictional dispute' exists within the meaning of the cited statutory provisions."

Appellee Montag has cited *Local* 978, *United Brotherhood of Carpenters and Joiners v. Markwell,* 305 F. 2d 38 (8 cir. 1962; p. 39 Montag Opening Brief). However, in *Markwell,* supra, we find the following:

> "It is our opinion that the provisions relating to jurisdictional strikes and other activities are designed to protect the primary employer as well as neutral employers from involvement in internal disputes between unions, not of his own making" (p. 46).

and

> "The record also establishes that plaintiffs took a 'neutral position' in respect to the union affiliation of their employees . . ." (p. 47).

And again in *McLeod v. N.Y. Paper Cutters, etc.* 220 F. Supp. 133, cited by Curtis in its Brief, we find

> "It was the intent of Congress to prevent the enlargement of labor disputes which occur when a neutral bystander is enmeshed in a controversy not his own" (p. 136).

Vincent v. Steamfitters Local etc. 288 F. 2d 276, (CCA 2, 1961, Curtis Brief, p. 3) appears to be of questionable value here in the light of the statement that:

> "Its clear purpose was to drive two non-union men off the job."

The Supreme Court, in *National Labor Relations Board v. Radio and Television Broadcast Engineers, etc.,* 364 U.S. 573, in considering the perils of the employer in jurisdictional strife, stated:

> "And the House Committee report on one of the proposals out of which these sections came, recognized the necessity of enacting legislation to protect employers from being 'the helpless victims of quarrels that do not concern them at all' " (p. 580, 581).

Judge Tuttle's observation in *NLRB v. Operating Engineers Local* 450, 275 F. 2d 408 (CA 5, 1960), is significant and material, despite the rejection by the Supreme Court of its conclusion, that the National Labor Relations Board was not required to make an affirmative award of disputed work.

> "We note that the Supreme Court in *Internanational Longshoremen's and Warehousemen's Union v. Juneau Spruce Corp.* 342 U.S. 237, at 243 says:
>
> " 'Section 8(b) (4) (D) and Section 303(a) (4) are substantially identical in the conduct condemned. Section 8(b) (4) (D) gives rise to an administrative finding; Section 303(a) (4) to a judgment for damages.'
>
> "Yet the Supreme Court expressly in that case ruled that suit for damages for the very kind of strike as was charged here can be maintained without any section 10(k) hearing. This is strongly persuasive, we think, that the requirements of 10(k) are *purely procedural,* for it seems highly unlikely that Congress would enact a statute permitting an aggrieved person to sue for damages for a jurisdictional strike, with the quality of the strike finally and irrevocably fixed without any Board determination, and at the same time provide that the same strike would no longer

> be an unfair labor practice as a basis for seeking injunction if the Board, acting as arbitrator assigned the work to the striking union. Under such a construction the work would have been assigned by the Board to the striking union and no violation of 8(b) (4) (D) would exist, but the employer would still have his right to sue for damages because the strike would still be a violation of 303(a) (4). We conclude that Congress did not intend such an anomaly." (Emphasis supplied.)

In order to reach this conclusion the court felt it was forced to treat 10(k) as purely procedural. Otherwise Congress intended an anomaly. But, *NLRB v. Radio and Television Broadcast Engineers, etc.,* supra, makes it clear that 10(k) is not procedural, but substantive. That being so, we submit that to avoid the anomaly, a jurisdictional dispute cannot differ in essence or fact whether it be the subject of definition in a 10(k) or a 303 proceeding.

We submit that the gravaman of the problem here is the definition of "jurisdictional dispute" and that the definition in *Penello* of that term is as correctly applied here, as in an injunction proceeding. We lay aside any part of that opinion or discussion which is unrelated to the court's definition of "jurisdictional dispute" in the statutory scheme.

The appellees here have contended that any dispute with an employer's work assignment is a violation of the statute and gives rise to a 303(b) action. We submit that the claim is not well-founded. We repeat appellees' argument set out in the Opening Brief of appellant at page 53:

> "It appears from the testimony that whatever dispute may have existed between the unions was settled on July 17, 1957, by an agreement to give the rigging of wooden forms to the Carpenters union. (Mitchell deposition, exhibit 9, pp. 15, 30-31.) The agreement was reaffirmed on November 14, 1957. (Exhibit 9, p. 31.) The action taken by the Board on November 27, 1957, was pursuant to the request of both unions on November 18, 1957, that the contractors be compelled to put their agreement into effect. (Exhibit 9, pp. 28-29.)"

and

> "The procedure referred to is set forth in exhibits 2 and 3. Examination of these exhibits, as well as the language of the contract itself reveals that the Joint Board was authorized to decide only conflicting jurisdictional claims between unions. It was not authorized to settle disputes between a union or unions, on the one hand, and the employer, on the other. Since no dispute existed between the unions on November 27, 1957, the Board had no jurisdiction to act." (Plaintiffs' brief on remaining issues, pp. 31, 32.)

The record is clear that although the Iron Workers desired the work assigned to them, and hoped to keep the work assigned to them, they never at any time made threats to get it, nor did they submit any data supporting a claim prior to the controversy over the work, between Montag and Carpenter appellants. (See Opening Brief, Carpenters, p. 71 Appendix, paragraphs 8 and 9.) And the testimony of Guess, a representative of Montag (see p. 25, Carpenters, Appellant, Opening Brief) makes it clear that Montag never did comply, or intend to comply with the provisions of exhibits 1 and 2, i.e. the collective bargaining agreement, and the Procedural Rules and Regulations of the National Joint Board.

In that connection the activities and procedures of Montag raise considerable doubt as to whether or not Montag in June of 1957 was engaged in jurisdictional dispute, or even contended that they were. Exhibit 3, at page 5 in paragraph 5, provides in part that:

> "In the event that there is any stoppage of work, or cessation of operations, arising from a jurisdictional dispute following an assignment of work, the contractor is to notify immediately the Chairman of the Joint Board . . ."

This, of course, Montag did not do until September 5, 1957 (Exibit 9, Deposition of Mitchell, pp. 10 et seq), and it being conceded that the Union did not comply with areas of its responsibility as set out in exhibit 3, one can conclude that neither party seriously considered that the dispute was jurisdictional. Recitations of the agreed pretrial orders clearly indicate that this was a dispute between Montag and the appellants, Carpenters. And despite agreement of the Carpenters and Iron Workers, Montag refused to accede to any of their proposals. Montag, of course, was not *required* to accede to such requests, but nevertheless the ensuing dispute did not therefore become of jurisdictional character.

II.

The appellant International Union, did not participate in and encourage the actions of Local 1849.

It is conceded that International representatives were engaged in negotiations and discussions during the Ice Harbor difficulties. Does it follow that their activity can be characterized as participating and in-

ducing actions of Local 1849? It must be kept in mind that the International was and is a party bound to appropriate actions prescribed by exhibit 3, the *Procedural Rules and Regulations, etc.,* p. 5 et seq. An International union is bound, in accord with the regulations to use its offices when reports of strife are made to it. It cannot do the very things required of it, without "participating." This, it did, but to conclude that its actions constituted encouragement of the local is not borne out by the evidence.

The arguments of all appellees have been considered in respect to the damage items sought to be set aside by appellants, and appellants rest upon the argument heretofore made on these matters.

Respectfully submitted,
R. MAX ETTER,
Attorney for appellants.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

R. MAX ETTER

United States Court of Appeals

FOR THE NINTH CIRCUIT

C. J. MONTAG & SONS, INC., et al,
Appellees-Appellants,

vs.

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants-Appellees.

No. 18875

HOLMAN ERECTION COMPANY, INC.,
Appellee,

vs.

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants.

No. 18876

CURTIS CONSTRUCTION CO., a corporation,
Appellee,

vs.

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al,
Appellants.

No. 18877

PETITION FOR REHEARING EN BANC

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KERSHAW'S, INC.

TO:

JUDGES HAMLEY, MADDEN and JERTBERG:

The appellants above, also appellees in No. 18875, respectfully petition the Court for a rehearing en banc of the appeal in the above-entitled causes, and in support of this petition represent to the Court as follows:

1. The Court erred in finding that a "controversy" within the meaning of the Act was present, because of conflicting claims to work by the Carpenters and Iron Workers, which prohibited resolution of the conflict by Montag. The opinion of the Court reciting in part,

> ". . . in January, 1957, there began a continuing controversy between Montag and Local 1849 as to whether, and to what extent, the 'rigging' of certain forms which were to be used in the pouring of concrete on the dam should be done by Carpenters or by workmen of another craft" (p. 3 of Opinion).

constituted a finding of a primary dispute between the Carpenters and Montag, not a union conflict.

2. The Court erred in finding a jurisdictional dispute after the agreement of Carpenters and ~~Boilermakers~~ Iron work was made in August 1957, when it concludes that

> "The representatives of the two unions sought to put into effect a tentative agreement reached by their Presidents" (p. 6 of Opinion).

The record does not support the Court's description of the Carpenter-Iron Worker Agreement of August 1957 as "tentative." The refusal of the employer to accept an agreed solution does not support the conclusion, therefore, that it was a tentative agreement between the two unions.

3. The Court erred in finding that a jurisdictional dispute existed between the Carpenters and Iron Workers after August 1957. The acceptance by the Iron Workers, following the agreement of August 1957 with the Carpenters, of the work assigned, does not support the requirements of a jurisdictional dispute when Iron Workers had neither taken or threatened any proscribed action to support a claim, but had agreed to forego claim to the work proposed as the Carpenters.

4. The Court erred in failing to find that Montag could have ended the dispute by assigning the agreed-upon work to the Carpenters, when it knew following the agreement, that there would be no action taken in violation of the law by the Iron Workers.

5. The Court erred in failing to apply the reasoning in *Penello v. Sheet Metal Workers Union* to determine the basic nature of a jurisdictional dispute, when the dispute was primary from its inception, and in any event terminated not later than August 1957. (A) The Court erred in holding that, with respect to *Penello* "this case does not resemble it at all . . ." where substantial similarities of economic motivation on the part of the employer in assigning the work existed, and where there was either an absence, or a termination, of any active dispute over claimed work. (B) The Court erred in failing to find that an active dispute between contending unions is equally essential to an action under Section 303 of the Act, or one under Section 8(b)(4)(d). Though remedies may be independent, with inconsistent findings in actions pursued separately, such

inconsistent findings result only from independent consideration by separate fact-finding bodies, to-wit, the Board, the Court, or a jury. Inconsistency does not reside in, or result from, the legal principles applicable.

6. The Court erred in failing to find that the Carpenters and ~~Boilermakers~~ Iron workers had an agreement eliminating any dispute between them. Disagreement of Montag and the Court with the solution does not create a new actionable dispute. The agreement terminated the dispute, if any, within the contemplation of the Act, and Montag cannot therefore, invoke either Section 8(b)(4)(d) or Section 303 of the Act. Both Sections being in derogation of the right to strike, should be applied only to true active jurisdictional conflict, leaving any other charges of Montag to redress under appropriate provisions of the Act.

7. The Court erred in considering any issue of "featherbedding" and embodying such consideration in its finding that the Carpenters were not entitled to redress on the cross-complaint. (A) No part of the action between the litigants was based on any allegation or claim of "featherbedding." (B) If there was an issue of "featherbedding" it was properly a part of the function of the N.L.R.B. under Section 8(b)(6) of the Act and within its primary consideration, which preempts the Court's jurisdiction. (C) The Court erred in construing law and policy relating to "featherbedding." Section 8(b)(6) is directed against "services not performed or not to be performed" . . ., and the finding of the Court in supporting Montag, that the solution provided by agreement of the Unions and the

National Joint Board upon submission by both unions and employer is impractical or inconvenient, does not support the finding or conclusion of "featherbedding."

8. The Court erred in ignoring the policy of encouraging private settlement of disputes, while stressing the evils of such dispute and the policy of law to eliminate them.

9. The Court erred by attempting to determine the merits of the settlement reached, and the Joint Board order based upon it. The Court viewed it solely from the standpoint, of that which it would have ruled proper, had the settlement been expressed in the determination made by the National Labor Relations Board. The Court, therefore, erred in failing to apply its consideration to the policies and the rules that govern arbitration.

10. The Court erred in finding that Montag did not breach its agreement with the Carpenters in failing to follow the National Joint Board's order, and it was error for the Court to go behind the determination and reject it because it was a determination which the Court would not have made.

11. The Court erred by its finding and determination that the assignment by Montag was final and not subject to contention by the Carpenters. (A) The evidence of the primary dispute in January 1957 between the Carpenters and Montag (see No. 1, supra), or the settlement of August 1957 between the Carpenters and Iron Workers followed by the rejection of Montag, does not create the basis of a jurisdictional dispute. This is rejection only of an employer determination

and assignment. The Court's holding is contrary to the opinion of the Supreme Court of the United States in *N.L.R.B. v. Radio Television Engineers Union,* 364 U.S. 357.

12. The Court erred in failing to find that Montag, in its original assignment to the Iron Workers, violated the procedural rules of the National Joint Board, and that therefore any dispute, stoppage or damages resulting therefrom were the proximate result of its breach of contract.

13. The Court erred in substituting its findings of fact, from which it concluded in law, that the Carpenters award by the National Joint Board would constitute "featherbedding." There was sufficient credible evidence in the record to support the finding of the National Joint Board in its decision and award of work, and to support the District Court's conclusion in law and award on the Carpenter cross-complaint.

Respectfully submitted,
R. MAX ETTER
Attorney for Appellants

STATE OF WASHINGTON }
COUNTY OF SPOKANE } ss.

R. MAX ETTER, being first duly sworn, on oath certifies and says:

That he is the attorney for appellants in this cause; that he makes this certificate in compliance with Rule 23 of the rules of this Court; that in his judgment the within and foregoing Petition for Rehearing is well founded and is not interposed for delay.

R. MAX ETTER

Subscribed and sworn to before me this 10th day of August, 1964.

ROBERT WEINSTEIN,
(SEAL) Notary Public for the State of Washington
Residing at Spokane

United States Court of Appeals
for the Ninth Circuit

HOLMAN ERECTION COMPANY, INC.,
Appellee,

vs.

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al.,
Appellants.

No. 18876

Appellee's Brief

Appeal from the United States District Court for the Eastern District of Washington, Southern Division
Honorable William J. Lindberg, Judge

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Absarokee, Montana
Attorney for Appellee

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United States Court of Appeals
for the Ninth Circuit

HOLMAN ERECTION COMPANY, INC., *Appellee,* vs. INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, et al., *Appellants.*	No. 18876

Appellee's Brief

BRIEF OF APPELLEE

Appellee finds no fault with Appellants' statement of the case, or statement of jurisdiction.

As a matter of convenience, appellee will adopt appellants' method of reference, e.g., the Clerk's Transcript will be referred to as "CT", and the Reporter's Transcript will be referred to as "RT".

Although appellants presented a consolidated brief in all three companion cases, C. J. Montag & Sons, Inc. et al. v. International Brotherhood of Carpenters and Joiners of America, et al., No. 18875, Curtis Construction Co. v. International Brotherhood of Carpenters and Joiners of America, et al., No. 18877, and the instant case, there will be separate Reply Briefs. This appellee, however, adopts those portions of the Reply Briefs of the companion cases of Montag, No. 18875 and Curtis, No. 18877, insofar as pertains to issues of liability, including that of agency, in the interest of avoiding duplication and repetition in the briefs.

DAMAGES

Once the fact of damages is established, the requirement of certainty in proof of the amount of damages is not as strict in this type of case as it might otherwise be in a tort or breach of contract action.

In action for damages under the Labor-Management Relations Act, 1947, federal courts have adopted the rule of *Story Parchment Co. v. Paterson Parchment Paper Co.,* 282 U.S. 555, 51 S. Ct. 248 (1931).

This rule was quoted and applied by the court in *United Mine Workers of America v. Patton,* 211 F. 2d 742, 749 (4th Cir. 1954), as follows:

> "Where the tort itself is of such nature as to preclude the ascertainment of the amount of damages with certainty, it would be a perversion of fundamental principles of justice to deny all relief to the injured person, and thereby relieve the wrongdoer from making any amend for his acts. In such case,

> while the damages may not be determined by mere speculation or guess, it will be enough if the evidence shows the extent of the damages as a matter of just and reasonable inference, although the result be only approximate. The wrongdoer is not entitled to complain that they cannot be measured with the exactness and precision that would be possible if the case, which he alone is responsible for making, were otherwise."

Several other courts, including the Court of Appeals for the Ninth Circuit have followed the rule in cases similar to the instant case. *Flame Coal Co. v. United Mine Workers of America,* 303 F. 2d 39 (6th Cir. 1962); *Merritt, Chapman & Scott Corp. v. Guy F. Atchison Co.,* 295 F. 2d 14 (9th Cir. 1961); *Local Union 984, Int. Bro. of Teamsters, Etc. v. Humko Co.,* 287 F. 2d 231, (6th Cir. 1961) cert. den., 366 U.S. 962, 81 S. Ct. 1922 (1961). The Washington Supreme Court applied the rule in a breach of contract action, *Brear v. Klinker Sand & Gravel,* 160 Wash. Dec. 448, 374 P.2d 370 (1962), and again in a nuisance case, *Cunningham v. Town of Tieton,* 160 Wash. Dec. 439, 374 P.2d 375 (1962).

In the instant case, therefore, appellee is not required to prove the amount of damages with absolute certainty. It need only show "the extent of the damages as a matter of just and reasonable inference, although the result be only approximate."

In the words of the trial judge, the appellee was awarded damages of "not less than $10,000.00" (RT 1211, l. 16) In explanation, the trial court stated, "I think

there was a delay for which they were in no way responsible. I think there was some equipment probably kept on the premises longer than would have otherwise have been the case. . ." (RT 1203, l. 10-13)

Is there ample, competent, substantial evidence in the record, worthy of belief, to support the findings of fact by the District Judge? This Court has held consistently that where the facts found are rational and reasonable, the acceptance or rejection of testimony by a trial judge is binding upon the appellant court. The findings of fact by the trial judge will not be set aside unless they are so inherently improbable that they are not worthy of belief.

> *Fegles Const. Co. v. McLaughlin Const. Co.*, 9th C.C., 1953, 205 F. 2d 637;
>
> *Russell v. Texas Company,* 1956-1957, 9th C.C., 238 F. 2d 636;
>
> *Distillers Distributing Corp. v. J. C. Millet Co.,* 9th C.C., 1962-1963, 310 F.2d 162.

SUMMARY OF EVIDENCE OF DAMAGES

The appellee, Holman, had a contract in the amount of $1,454,805.76 (RT 1086, l. 4), which was to be completed in approximately two years (CT 17, l. 24-25; RT 947, l. 21). Construction work on the Project was halted from June 6 to June 22, 1957, and from September 10 to September 26, 1957, and appellee was required to suspend operations during said periods (CT 19, l. 11-16). During that time (RT 1106, l. 1-10) appellee had placed on the job a large amount of working apparatus which it refer-

red to in its Plant Acquisition Schedule, Plaintiff's Exhibit No. 6, and which had an agreed value of $170,498.-43 (RT 1059, l. 5). Appellee also had machinery on the job valued at $141,073.20 (Plaintiff's Exhibit No. 5). One witness testified that the appellee was paying One Thousand Dollars per month rental for each of two cranes on the job (RT 1105, l. 4). The Appellee lost sixteen experienced men from its crews, as shown by the payrolls (Plaintiff's Exhibit No. 4), as a result of the work stoppages. The sum of $3,185.00 was expended in overtime for the job manager alone (Plaintiff's Exhibit No. 6, Schedule 11-D).

There is undisputed testimony showing that, as a result of the work stoppages, steel was lost and damaged on the job (RT 936 l. 19-23); identification marks and tags were lost from fabricated assemblies, necessitating re-identification and re-tag procedures (RT 935, l. 8 — RT 936, l. 18); multiple handling problems were encountered (RT 939, l. 8-13); storage problems were encountered (RT 940, l. 1-12), and appellee was forced to use certain equipment which was not suited to the task involved (RT 939, l. 4-12); steel installation techniques were interrupted and work had to be done out of sequence, which "Took a lot longer to do it. . . . I think it would take four times as long to put it in, at least." (RT 925, l. 8-13; RT 932, l. 18; RT 934, l. 12.)

It appears quite obvious that even the trial judge believed that the sum of $10,000.00 was a niggardly amount

of damages, in light of the terminology he selected, "not less than $10,000.00."

CONCLUSION

The findings of fact and conclusions by the trial Judge are rational and reasonable, and are supported by ample, competent, substantial evidence worthy of belief.

Respectfully submitted,

WM. R. MORSE
Attorney for Appellee

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

WM. R. MORSE
Attorney for Appellee

United States Court of Appeals
FOR THE NINTH CIRCUIT

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, (AFL-CIO) AND CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, *Appellants,* vs. CURTIS CONSTRUCTION CO., a corporation, *Appellee.*	No. 18877

Appeal from the United States District Court for the Eastern District of Washington, Southern Division

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HONORABLE WILLIAM J. LINDBERG, *Judge*

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United States Court of Appeals
FOR THE NINTH CIRCUIT

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United States Court of Appeals
FOR THE NINTH CIRCUIT

INTERNATIONAL BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, (AFL-CIO) AND CARPENTERS' LOCAL 1849, UNITED BROTHERHOOD OF CARPENTERS AND JOINERS OF AMERICA, *Appellants,* vs. CURTIS CONSTRUCTION CO., a corporation, *Appellee.*	No. 18877

Appeal from the United States District Court for the Eastern District of Washington, Southern Division

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HONORABLE WILLIAM J. LINDBERG, *Judge*

APPELLEE'S BRIEF

JURISDICTION

This is an action by a subcontractor on the construction of Ice Harbor Dam in the Eastern District of Washington, an activity affecting commerce. It was instituted against labor organizations there engaged in representing and acting for members employed on the project by the prime contractor. Such organizations engaged in strikes and concerted refusals to handle certain articles with the object of requiring the prime contractor to

assign certain work to their members in violation of Section 303(a)(4) and (b) of the Labor-Management Relations Act (1947), (29 U.S.C.A. §187(a)(4) and (b); Clerk's Transcript 1-2).

This is one of three cases arising from substantially the same state of facts, tried and argued together before the trial court, and as to which appellants have filed a consolidated brief. We will follow their procedure of referring to the Clerk's Transcript as "CT" and the Reporter's Transcript as "RT." All evidence in the Montag (prime contractor) case, No. 18875 in this court, was to be considered in this, the Curtis (subcontractor) case (RT 8). While identical in most respects, the Pre-trial Order on Liability Issues in Curtis included the additional contention that a breach of contract by the prime contractor was no defense against Curtis. Also, it was agreed that because of the work stoppages, Montag was unable to accept concrete aggregate from Curtis, requiring the latter to suspend operations during those periods (CT 21).

ARGUMENT

It is appellee Curtis' position that appellants engaged in conduct proscribed by Section 303(a)(4) of the Labor-Management Relations Act, 1947 (29 U.S.C.A. §187(a)(4)); that the parent international organization was liable both as a joint tort feasor and under the law of principal and agent; and that appellee is entitled to damages of $42,877.92 and costs as found by the trial court.

CONDUCT VIOLATED ACT

Appellants deny violation of Section 303(a)(4) upon the premise that the statute applies only where two labor organizations actively compete for a work assignment. We find no such limitation therein:

> "(a) It shall be unlawful, for the purposes of this section only, in an industry or activity affecting commerce, for any labor organization to engage in, or to induce or encourage the employees of any employer to engage in, a strike or a concerted refusal in the course of their employment to use, manufacture, process, transport, or otherwise handle or work on any goods, articles, materials, or commodities or to perform any services, where an object thereof is— . . . (4) forcing or requiring any employer to assign particular work to employees in a particular labor organization or in a particular trade, craft, or class rather than to employees in another labor organization or in another trade, craft, or class unless such employer is failing to conform to an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing such work."

The only exception is where the employer "is failing to conform to an order or certification of the National Labor Relations Board determining the bargaining representative for employees performing such work." §303(a)(4), 29 U.S.C.A. §187(a)(4).

Appellants' interpretation has been rejected by the courts:

> *Vincent vs. Steamfitters Local, etc.,* 288 F. (2d) 276, 278 (CCA 2, 1961);

Local 978, United Brotherhood of Carpenters, etc. vs. Markwell, 305 F. (2d) 38, 47 (CCA 8, 1962);

McLeod vs. N. Y. Paper Cutters, etc., 220 F. Supp. 133, 136 (DC, N.Y., 1963).

In the first case it is stated with respect to a Section 8(b)(4)(D) (29 U.S.C.A. §158(b)(4)(D)) proceeding:

> "Appellant argues that this section makes the proscribed activity an unfair labor practice when there is a jurisdictional dispute between two unions for a single work assignment but that it has no applicability otherwise. A literal reading of the statute does not support so limited an interpretation. Economic coercive activity directed at an employer by a union that seeks work assignments for its members to the exclusion of other workers is the same coercive activity irrespective of whether the employees it seeks to replace are union members or are not union members. And the employer, whom Section 8(b)(4)(D) is designed to protect, is threatened with the same prospective business inactivity. Section 8(b)(4)(D) applies to the dispute here."

In *Local 978,* it was held:

> "Appellants also contend that the facts here do not establish a true 'jurisdictional dispute.' While §158(b)(4)(D) and its counterpart §187(a)(4) are of particular aid in disputes involving two rival unions within an employer organization, it is clear that these sections are also applicable when the dispute might be said to be solely between an employer and a union."

Appellants' argument is that 303(a)(4) must be construed in the same manner as 8(b)(4)(D), that the latter must be interpreted in connection with Section 10(k), (29 U.S.C.A. §160(k)) and that it, in turn, is applicable only to such a dispute. On the contrary, the authorities seem squarely to hold that the private remedy offered by Section 303(a)(4) is independent of and not limited by the administrative procedures contemplated by 8(b)(4)(D) and 10(k).

> *International, L. & W. U. vs. Juneau Spruce Corp.,* 342 U. S. 237, 243-244, 96 L. Ed. 275, 72 S. Ct. 235 (1952);
>
> *NLRB vs. Radio & Telev. Broadcast Engrs.,* 364 U. S. 573, 585, 5 L. Ed. 302, 81 S. Ct. 330 (1961);
>
> *International Longshoremen's, etc. vs. Juneau Spruce Corp.,* 189 F. (2d) 177, 187 (CCA 9, 1951);
>
> *NLRB vs. Radio & Telev. B.E.U.,* 272 F. (2d) 713, 715 (CCA 2, 1959).

Juneau Spruce was an employer's action for damages under 303(a)(4). It was contended that the statute must be read in the light of 8(b)(4)(D) and applied only to picketing occurring after a National Labor Relations Board determination that the acts complained of amounted to unfair labor practices. It was stated by the Supreme Court at 342 U. S. 243-244:

> "Section 8(b)(4)(D) and §303 (a)(4) are substantially identical in the conduct condemned. Section 8(b)(4)(D) gives rise to an administrative finding; §303(a)(4), to a judgment for damages. The fact that the two sections have an

identity of language and yet specify two different remedies is strong confirmation of our conclusion that the remedies provided were to be independent of each other. Certainly there is nothing in the language of §303(a)(4) which makes its remedy dependent on any prior administrative determination that an unfair labor practice has been committed. Rather, the opposite seems to be true. For the jurisdictional disputes proscribed by §303(a)(4) are rendered unlawful 'for the purposes of this section only,' thus setting apart for private redress, acts which might also be subjected to the administrative process. The fact that the Board must first attempt to resolve the dispute by means of a §10(k) determination before it can move under § 10(b) and (c) for a cease and desist order is only a limitation on administrative power, as is the provision in §10(k) that upon compliance 'with the decision of the Board or upon such voluntary adjustment of the dispute,' the charge shall be dismissed. These provisions, limiting and curtailing the administrative power, find no counterpart in the provision for private redress contained in §303(a)(4). Section 303(a)(4) as explained by Senator Taft, its author, 'retains simply a right of suit for damages against any labor organization which undertakes a secondary boycott or a jurisdictional strike.

"The right to sue in the courts is clear, provided the pressure on the employer falls in the prescribed category which, so far as material here, is forcing or requiring him to assign particular work 'to employees in a particular labor organization' rather than to employees 'in another labor organization' or in another 'class'."

The *Juneau Spruce* case had come up from the Ninth Circuit. Answering the contention that a 10(k) determination must precede liability under Section 303(a)(4), this court held at 189 F. (2d) 187:

"No such limitation appears expressly in Section 303(a)(4). Section 10(k) provides that whenever an unfair labor practice charge is filed under Section 8(b)(4)(D) the Board is 'empowered and directed to hear and determine the dispute***.' There is no reference in Section 10(k) to Section 303(a)(4). The argument of appellants rests primarily on identical language of Section 8(b)(4)(D) and Section 303(a)(4) and on the fact that a special procedure is set out in the Act for determining jurisdictional disputes.

"The difficulty with the position of the appellants is that it is inconsistent with the plain language of Section 303(a)(4). . .

"As we view this Section of the Act, a plaintiff, to maintain an action for damages, is required to show that a labor organization has engaged in or induced the employees of any employer to engage in a strike, etc. and that an object of such conduct was to force or require any employer to assign particular work to employees in a particular labor organization or group rather than to employees in another group; and further that the employer is not failing to conform to a Board order or certification determining the bargaining representative for employees performing such work. All of these requirements were adequately pleaded and proved in the instant case."

NLRB vs. Radio & Television Broadcast, etc., was concerned with the extent of the Board's obligation to "determine the dispute" under Section 10(k) before imposing sanctions under 8(b)(4)(D). It was argued that "substantive symmetry" should be preserved between 303(a)(4) on the one hand and 8(b)(4)(D) and 10(k) on the other. The Court, citing *Juneau Spruce,* held at 364 U. S. 585:

> "This argument ignores the fact that this Court has recognized the separate and distinct nature of these two approaches to the problem of handling jurisdictional strikes. Since we do not require a 'substantive symmetry' between the two, we need not and do not decide what effect a decision of the Board under §10(k) might have on actions under §303(a)(4)."

The case came from the Second Circuit. In discussing the Board's argument for "internal consistency of the Act's provisions," the circuit court at 272 F. (2d) 715, said of the *Juneau Spruce* Supreme Court opinion:

> ". . . the Supreme Court's decision rests on the premise that the two sections are not to be construed *in pari materia.* It is to be expected that the considerations which underlie the grant of private redress differ from those which determine the application of administrative process."

The most recent recognition we find of the independent nature of a Section 303 proceeding is *Morton vs. Local 20, Teamsters, etc., supra,* where at 320 F. (2d) 508, citing *Juneau Spruce,* the Sixth Circuit Court of Appeals stated on July 25, 1963, that:

> ". . . Congress has provided a forum by virtue of 29 U.S.C.A. §187 and this is completely independent of any National Labor Relations Board proceeding."

Appellants cite no judicial authority for their proposition that a case under 303(a)(4) is governed by 8(b)(4)(D) and 10(k) decisions, save *Penello vs. Local Union 59, Sheet Metal Wkrs., etc.,* 195 F. Supp. 458 (DC, Del., 1961).

There the Delaware District Court was concerned with a petition by the National Labor Relations Board for injunctive relief, alleging a violation of Section 8(b)(4)(D). Dupont, the employer, unwilling to incur travel pay charges for certain sheet metal work, had been using iron workers. The sheet metal workers Local No. 59 picketed the job. As a result, various employees refused to cross the picket line, including some of the iron workers. No other labor organization, trade, craft or class of employees claimed the work or threatened retaliatory action against Dupont. It was the opinion of the court, (Judge Caleb M. Wright) that Section 10(k) was applicable only to an active controversy between two opposing groups of employees and that by further interpretation 8(b)(4)(D) must be similarly limited.

The language of 8(b)(4)(D), said the court, was "extremely broad," and "would seem on its face to render illegal any coercive economic activity designed to force an employer to assign work to one group of employees rather than to another. . . . Were the naked language of §8(b)(4)(D) the only guidepost for the Court, there could be little question about the result. . . ." (p. 463). But because the Court considered that Section 10(k) could apply only to an active dispute between competing employee groups, it was reasoned that Section 8(b)(4)(D) must be similarly limited, or, as the Court said, ". . . if there is no 'dispute' which can be 'determined' by the Board under §10(k) there can be no conduct prohibited by §8(b)(4)(D)" (p. 464).

The opinion professes to be bottomed upon the Supreme Court's *Radio & Television Engineers* opinion, *supra,* but as we read that case, it goes no farther than to hold that, in a case which in fact involved disputing unions, and as to whom the employer was strictly a bystander, the Labor Board must proceed under 10(k) to "determine the dispute" before proceeding under section 10(c) to issue a "cease and desist" order (364 U.S. at 586). It would not seem to follow from such a holding that *only* an active dispute between two unions may be submitted under 10(k), that *only* a dispute cognizable under 10(k) may constitute an 8(b)(4)(D) violation and that *only* such a dispute may give rise to a claim under 303(a)(4).

The Delaware court at page 468 refused to be bound by *Juneau Spruce* although the latter had stated that "the fact that the union of mill employees temporarily acceded to the claim of the outside group did not withdraw the dispute from the category of jurisdictional disputes condemned by §303(a)(4)." It seized upon the word "temporarily" as a distinction and remarked that the Supreme Court in *Radio & Television Engineers* "did not consider it controlling and disposed of it simply by saying a 'substantive symmetry' between the two approaches to jurisdictional disputes is not required." This, of course, is the point we are making at this time, and it would seem that if a 303(a)(4) case is not controlling in an 8(b)(4)(D)-10(k) controversy, the same should be true in the converse, our case. The further statement that the effect of a §10(k) determination upon an action under §303(a)(4) was an open question not present-

ed in the *Radio & Television Engineers* case can hardly be said to overrule *Juneau Spruce!*

The Delaware court recognized that were the naked language of §8(b)(4)(D) its only guidepost, there could be little question about the result but, mindful of Section 10(k), concluded that 8(b)(4)(D) "does not stand alone in the statutory scheme" (p. 463). The situation is far different as to 303(a)(4) for "stand alone" it does, unaffected by 10(k) or any parallel provision. This was specifically noted by the Supreme Court in *Juneau Spruce,* where it was said that "These provisions (§10(b), (c) and (k)), limiting and curtailing the administrative power, find no counterpart in the provision for private redress contained in section 303(a)(4)" (342 U. S. at 244). It is of interest to note that the briefs of counsel for the union, as summarized at 96 L. Ed. 276, asserted an interrelation between 8(b)(4)(D), 10(k) and 303 (a)*(4)*, contending that section 303(a)(4) must be construed in the light of 10(k) and that even if the language of 303(a)(4) were to be considered plain, its literal meaning must yield to the general purposes of the statute to avoid the unreasonable results that would otherwise follow. This argument was rejected and we have found nothing subsequent to *Juneau Spruce* to suggest that the Supreme Court would now accept it.

Penello holds only that because no other labor organization actively disputed Local 59's claim to the work, there was no "dispute" cognizable under section 10(k). This is a far cry from holding, as counsel

would interpret the case, that the employer had no claim for damages under 303(a)(4). Indeed, the court specifically stated at page 471:

> "Whether the conduct of Local 59 here violates provisions of the Act other than §8(b)(4)(D) is not an issue before the Court in this proceeding, and *nothing in this opinion should be construed as an indication that the conduct is either protected or prohibited by other provisions.*" (Our emphasis).

Thus, it would seem that the Delaware court itself carefully and expressly nullified any use of the case as authority in an action brought under 303(a)(4).

We note that in *Dooley vs. Highway Truckdrivers, etc.* 192 F. Supp. 199, Judge Edwin D. Steele, Jr., also of the Delaware District Court, in an opinion dated February 24, 1961, less than four months prior to *Penello,* doubted that *Radio & Television Engineers* required a jurisdictional dispute between competing unions. The Delaware District included a third judge, but we have no clue to his views on this question.

A DISPUTE EXISTED IN FACT

Apart from the legal question of whether a claim under 303(a)(4) requires an active "dispute" between labor groups competing for a job assignment, we cannot agree that factually there was no such controversy. The record is full of statements by appellants' own people, recognizing the existence of a "dispute" *between the unions,* extending from early April, 1957,

until at least November, 1957 (Brown depo. Ex. 4, p. 6-8; Hiller depo., Ex. 5, p. 22, 28-29, 38-39, 40-41, 46-47; RT 31-32).

Witnesses from the Ironworkers Union similarly recognized the existence of a "dispute" *between the two organizations* (Pickel depo., Ex. 8, p. 8-10, 12, 14-18; Holland depo., Ex. 7, p. 22-29, 46).

Numerous references to the "dispute" *between the Carpenters and Ironworkers* appear in the testimony of Richard James Mitchell, chairman of the National Joint Board for the Settlement of Jurisdictional Disputes (Mitchell depo., Ex. 9, p. 15-16, 21, 23, 28-29, 32, 42, 45-47).

INTERNATIONAL IS LIABLE

The trial court found that the defendant International Brotherhood, acting through its International representative, participated in and encouraged the acts of defendant Local 1849, United Brotherhood of Carpenters and Joiners of America, in inducing and encouraging its members to engage in concerted refusals in the course of their employment to work on or otherwise handle wooden forms after the same had been rigged by the members of Local 14, with the object and for the purpose of forcing and requiring Montag to assign said work to members of defendant Local 1849, rather than to members of Local 14, to whom Montag had previously assigned such work (CT 29).

Liability of the International was asserted on the theory of agency and joint tort feasor. An examination of the evidence as to what was said and what was done, seems clearly to reveal a close inter-relationship, wherein the local was seeking to attain the objectives of the International and was at all times obedient to its "stop" and "go" signals.

The record is replete with proof of the International's direct interest in and connection with the rigging problem and resultant work stoppages. The strike which commenced June 6, 1957, was no sudden "wildcat" affair called by the local on an issue unrelated to the International's activities. H. H. Brown, Carpenters Local 1849 business agent (Brown depo., Ex. 4, p. 2), had attended a meeting in Walla Walla, January 6, 1957 (id. 3) where he discussed assignments with Montag representatives, claiming "decisions from the National Joint Board giving the rigging of concrete forms to the Carpenters" (id. 4-5). The rigging of wooden forms was claimed by the Carpenters as early as March, 1957 (RT 29), or possibly before. A work stoppage had occurred in April when an Ironworker crew was assigned certain work previously performed by the Carpenters (Ex. 4, 6-7). Representative Sleeman was assigned from the Carpenters (International) to thrash out the rigging situation satisfactorily between the Carpenters and the Ironworkers, but the Ironworkers refused to go along with it. The Carpenters were instructed to go back to work pending some kind of settlement to be made *by the two Internationals* (id. 7-8). When the April 26 assignment was made to the Ironworkers, Brown

filed a protest with the company, the AGC (Associated General Contractors) manager and the Carpenters' International (id. 9, 15), citing decisions of the National Joint Board for Settlement of Jurisdictional Disputes (id. 10). Such rigging was claimed as "a tool of the trade" from "the top to the bottom" of the Carpenters' organization (id. 17). That was the Carpenters' position on the subject (id. 18).

Lyle J. Hiller, a general representative for the Carpenters' International (Hiller depo., Ex. 5, p. 22), testified that International representatives were sent in at the time of the first difficulty early in April (id. 24). He himself was officially assigned to the matter June 10 (id. 25) and met a number of times with general organizer Holland of the Ironworkers. He made a definite claim to the work and notified both parties that if an assignment was made to the Ironworkers, he would contest it (id. 28). Carpenters' General President Hutcheson wired Hiller June 19, 1957, to contact the Ironworkers' general organizer "and work out understanding along lines of agreement reached between General Presidents M. A. Hutcheson and Lyons and *see that our members return to work under said agreement*" (id. 32, our emphasis).

By telegram of August 26 (prior to the September work stoppage herein sued upon), Hutcheson advised Hiller that the two Internationals had reached an understanding (id. 40-41). About August 27, Brown, of the Carpenters' Local, *with Hiller and Hankins of the International,* appeared at the job site with a copy

of International's telegram to "advise" Montag of the agreement between the two Internationals (RT 43). Hiller thereupon reported to Hutcheson that he had "attempted to put into effect the agreement between the Ironworkers and ourselves relative to rigging concrete forms" (id. 38) and that the Ironworkers' representative had "refused to meet them" (id. 39). The shop stewards were thereafter instructed to say that the policy was placed in effect (RT 45) and the job was shut down. Joint meetings with the Ironworkers and the contractor followed. At least as early as September 17, 1957, Hutcheson was informed by the National Joint Board that the Carpenters were "still on strike in jurisdictional dispute with Ironworkers" (id. 51), but it was not until September 24 that the International representatives wired the local "to go back to work" (id. 52, 55). Although the dispute was not then resolved, the men went back to work on receipt of the telegram (Ex. 56) from Hiller and Hankins, stating "You are here instructed to notify your members to return to work at Ice Harbor Dam near Pasco, Washington, Montag-Halverson-Austin & Associates contractor at once."

Montag's superintendent Daryl Mason (RT 72) testified that he had conferred with International Carpenters' representatives regarding the assignment of rigging of wooden forms, between Christmas and New Years in 1956 (RT 73). Two Carpenter International representatives appeared at a meeting April 8, 1957 (RT 78) claiming that the Carpenters deserved and should be assigned rigging on the multi-purpose cranes (RT 79). When the June work stoppage oc-

curred and Carpenters' International representatives were sent to adjust the dispute, their position was that the dispute must first be settled before getting the men back to work, rather than putting them back to work, then proceeding with negotiations. It was not until a tentative agreement had been reached that the men went back to work (RT 88-89).

About August 27, Hiller, Hankins, Brown and another Carpenters' representative called upon Mason, showed him a telegram (RT 93) from Hutcheson, advised him the Internationals had reached an agreement and told him "that they wanted to put it into effect on the Ice Harbor Dam" (RT 94). Early in September, Mason received a phone call from Brown, advising him that the members had voted to put the telegram into effect on the job (RT 95). On the following Monday, the Carpenters refused to perform certain work. Upon contacting the head steward, he was shown a copy of the same Hutcheson telegram and was again told that they wanted the work assignment put into effect (RT 97).

The work stoppage commenced the following day and continued until the 25th during which time Mason met with Miller, Brown and Hankins (RT 98) and was in all instances told that "the dispute was to be settled before the men came back to work" (RT 99).

H. O. Montag, a member of the joint venture and project manager (RT 110), testified that when Burlingame appeared for the Carpenters' International at the April 8, 1957, meeting, he did about ninety per

cent of the talking and "repeatedly said that the rigging work on the wooden forms was the work of the carpenters and said he intended to see it was corrected" (RT 112). When Montag talked to Brown (business agent for the Local) at the time of the June stoppage, Brown stated "that he was in the right and that Mr. Hutcheson had sanctioned it and told him (Brown) that they had a job decision and that he shouldn't worry about it, or words to that effect" (RT 114). The information in the telegram of June 6 (Ex. 28), "Local business agent advises he is instructed by Hutcheson not to put the men back to work since he has won job decision at Hanford on carpenter rigging" was received from Brown (RT 115). When Montag inquired if it was Hiller's purpose to put the men back to work, he said it was. When Montag asked him "When?", Hiller answered "as soon as we get all these various angles ironed out and the dispute settled" (RT 116).

Sam Guess, executive secretary of the Associated General Contractors, Spokane Chapter (RT 128), testified that in April Burlingame, the Carpenters International representative, stated on behalf of the Carpenters union that the rigging of the wooden forms was theirs and that they were not going to let the ironworkers beat them out of it (RT 139). He, too, was told by Brown at the beginning of the June strike that he had been instructed by Hutcheson not to put his men back to work (RT 142-143). When they settled the June stoppage, Guess was told by International representatives Hiller (Carpenters) and Holland (Ironworkers) "that they would go back to work

and there would be no further work stoppages until the thing was properly handled" (RT 146).

Shortly before the September strike, Brown told Guess that an agreement had been reached between the two Internationals about the rigging and that they were going to insist that the thing be put into effect. Guess then called Hankins, who explained the agreement to him (RT 148). In a later conference with Sleeman, Hiller and Hankins, all International Carpenters, they refused to deviate from their instructions (RT 154-155).

International Brotherhood of Teamsters, etc. vs. U. S., 275 F. (2d) 610 (CCA 4, 1960), cert. den., 362 U. S. 975 (1960) is of particular interest with respect to the International Carpenters' liability. There the court considered the International constitution and by-laws of the Teamsters' Union and concluded that its locals were so under the International's domination as not to be free to pursue an independent course. Ergo, the International was liable for the acts of a local's secretary-treasurer in the furtherance of International's policies and objectives. An examination of the International Carpenter Union's Constitution and Laws reveals a remarkable similarity between the two International organizations. Section 6 of the Carpenters' Constitution, entitled "Jurisdiction," reads as follows:

> "A. Section 6. The jurisdiction of the United Brotherhood of Carpenters and Joiners of America shall include all branches of the Carpenter and Joiner trade. In it shall be vested the power

through the International Body to establish and charter Subordinate Local and Auxiliary Unions, District, State and Provincial Councils in all branches of the trade, and all other employes working in the industry, and its mandates must be observed and obeyed at all times.

"B. The right is reserved to the United Brotherhood through the International Body to regulate and determine all matters pertaining to fellowship in its various branches and kindred trades.

"C. To subordinate Local or Auxiliary Unions, District, State and Provincial Councils the right is conceded to make necessary laws for Locals and District, State and Provincial Councils which do not conflict with the laws of the International Body.

"D. The right is reserved to establish jurisdiction over any Local or Auxiliary Unions, District, State or Provincial Councils whose affairs are conducted in such a manner as to be a menace to the welfare of the International Body.

"E. The United Brotherhood shall enact and enforce laws for its government and that of subordinate Locals and Auxiliary Unions and District, State and Provincial Councils and members thereof" (Ex. 10, p. 4).

The General President (Hutcheson) may personally, or by deputy, take possession for examination of all books, papers and financial accounts of any local, summarily when necessary (id. §10-B, p. 9). He shall decide all points of law, appeals and grievances, except death and disability claims, and have power to suspend any local union subject to an appeal to the General Executive Board. Any local which wilfully or directly violates the constitution, laws, or princi-

ples of the United Brotherhood "or acts in antagonism to its welfare" can be suspended by the General President in conjunction with the General Vice-Presidents (id. §10-F, p. 9). He may order two or more locals to consolidate and enforce the consolidation, provided such course receives the sanction of the General Executive Board (id. §10-G, p. 9-10). Where a local has asked the assistance of the General Office, the General President may, with the consent of the General Executive Board, make settlement with employers, and the local must accept the same (id. §10-J, p. 10). Whenever, in the judgment of the General President, subordinate bodies or the members thereof are working against the best interests of the United Brotherhood, or are not in harmony with its constitution and laws, the General President shall have the power to order it to disband under penalty of suspension (id. §10-K, p. 10).

The First General Vice-President, under the supervision of the General President, examines and approves or disapproves all local union laws (id. §11-B, p. 11).

The General Executive Board shall have power to authorize strikes in conformity with the constitution and laws of the United Brotherhood (id. §15-E, p. 15) and may order strikes in any locality regardless of agreements that may have been entered into by any subordinate union, unless such agreements have been approved by the General President (id. §15-G, p. 15). The Board makes jurisdictional agreements with employers, provided such agreements require employers

to conform with the district trade rules (id. §15-H, p. 15).

Under the "General Laws" (Ex. 10, p. 21, et seq.), by-laws and trade rules of local unions must in no way conflict with the constitution and laws of the United Brotherhood and must be approved by the First General Vice-President (id. §25-A, p. 21). A local cannot withdraw or dissolve so long as ten members in good standing object thereto (id. §25-C, p. 21). All locals are prohibited from sending out circulars or appeals asking for financial aid in any form, except with the approval of the General Executive Board, attested by the General Secretary (id. §25-F, p. 21).

Where two or more locals exist in one city, they must be represented in a District Council and be governed by such laws and trade rules as shall be adopted by the Council and approved by the locals and First General Vice-President. The General President may order locals to affiliate with such Councils and settle their lines of jurisdiction, subject to appeal (id. §26-A, p. 21-22). The General President may form Councils in localities other than cities (id. §26-B, p. 22). District laws governing strikes must not conflict with the constitution and laws of the United Brotherhood and must be approved by the First General Vice-President (id. §26-C, p. 22). District Councils cannot debar their members from working for contractors or employers other than those connected with the employers' or builders' association (id. §26-E, p. 22).

A local's charter is at all times the property of the International (id. §29-A, p. 24). If at any time the local withdraws, lapses, dissolves, or is suspended or expelled, all its property, books, charter and funds must be forwarded immediately to the General Secretary, to be held in safekeeping for the carpenters in that locality until such time as they shall reorganize (id. §30-A, p. 24).

The International directs in detail what officers the local shall elect, how and when they shall be elected, their eligibility for office, and when they shall be installed (id. §31, p. 25-26). The General Laws spell out the requirements for removal of local officers and the appointment or election of successors (id. §32, p. 26). The duties of all local officers are prescribed in detail (id. §35-40, p. 27-30), with special provision for reports to the International (id. §35-B, p. 27; 36-D, p. 28; 37-C, p. 29; 40-C, p. 30).

Qualifications for local membership and procedure for admission of members are prescribed in detail (id. §42-A-J, p. 31-32; §43, p. 34-37).

Minimum local dues are prescribed, with provision for the payment of various charges and taxes to the International and for the suspension or lapsing of the charter for non-payment (id. §44, p. 37-38). Similar provisions are made for termination of an individual's membership for non-payment of local dues (id. §45, p. 38-39). A local is required to issue a clearance (transfer) card to any member in good

standing (id. §46-A, p. 29) and another local must accept such member (id. §46-G, p. 40).

The General Laws designate a series of "misdemeanors and penalties" requiring the fining, suspending or expelling of officers or members (id. §55, p. 47-48). What might be called capital crimes, requiring that an officer or member "be expelled and forever debarred from membership in the United Brotherhood" are committed by "any officer or member who endeavors to create dissension among the members or works against the interest and harmony of the United Brotherhood, or who advocates or encourages division of the funds or dissolution of any local union, or the separation of a local union from the United Brotherhood, or embezzles the funds" (id. §55-B, p. 27). The General Laws provide for appeals to the General President, subject to a further appeal to the General Executive Board and a final appeal to the General Convention (id. §57, p. 50-51).

The funds and property of a local may be used only for such purposes as are specified in the constitution and laws of the United Brotherhood (id. §58-A, p. 51). Trade demands must be submitted to the General Executive Board for sanction (id. §59-B, p. 53), and the laws prescribe in detail the procedure for making demands for wage increases, reduction of hours, or enforcement of trade rules (id. §59-G-I, p. 53-54).

All supplies are to be purchased from the General Secretary (id. §61, p. 58) and all locals are required to affiliate with central bodies and state federations

of the American Federation of Labor (id. §62-A, p. 58). Local meetings must be held at least once a month (id. p. 60) and the rules of order for such meetings are stated in detail by the International (id. p. 61-62).

CONTRACT BREACH NO DEFENSE

Appellants' fourth Specification of Errors as to Curtis (Appellants' Br. 18) is that by agreement with the prime contractor, appellants were entitled to certain work which was refused them, in breach of the contract, and that their refusal to continue working did not constitute conduct prohibited by Section 303 (a)(4). This, with denial of participation by International, was their principal defense at the trial on liability issues, held June 30, 1960 (CT 22). The appellee contended that breach of contract was no defense (CT 21) and the trial court so held (CT 29).

Although some National Labor Relations' Board opinions have recognized the existence of a contract assigning work as a reason to refuse injunctive relief under Section 8(b)(4)(D) (29 U.S.C.A. §158(b)(4) (D)), we have found no instance where such a defense was recognized in a damage suit based on Section 303(a)(4). A similar objection was raised in a case under Section 8(b)(4)(A) relating to "hot cargoes." *N.L.R.B. vs. Local 1976 etc.,* 241 F. (2d) 147 (CCA 9, 1957), involved a contractual provision that "workmen shall not be required to handle non-union material." When carpenters refused to handle doors

from a non-union plant, the employer asserted it as a violation of 8(b)(4)(A). The court stated at page 153:

> "An employer may well remain free to decide, as a matter of business policy, whether he will accede to a union's boycott demands, or if he has already agreed to do so, whether he will fulfill his agreement. An entirely different situation, however is presented under §8(b)(4)(A) of the Act, 29 U.S.C.A. §158(b)(4)(A), supra, when it is sought to influence the employer's decision by a work stoppage of his employees. Such a work stoppage, Congress has plainly declared, is unlawful, when the object—clearly present here—is . . . forcing or requiring any employer . . . to cease using . . . the products of any other . . . manufacturer, or to cease doing business with any other person."

When an opposite conclusion was reached by the District of Columbia Circuit Court of Appeals, the matter was resolved by the United States Supreme Court in *Local 1976, UBC&J vs. N.L.R.B.,* 357 U. S. 93, 2 L. Ed. 1186, 78 S. Ct. 1011 (1958). The Ninth Circuit was affirmed, the court stating that although a hot cargo clause was not of itself objectionable, it could not be enforced by the means prohibited in Section 8(b)(4)(A):

> "There is nothing in the legislative history to show that Congress directly considered the relation between hot cargo provisions and the prohibitions of §8(b)(4)(A). Nevertheless, it seems most probable that the freedom of choice for the employer contemplated by §8(b)(4)(A) is a freedom of choice at the time the question whether to boycott or not arises in a concrete situation call-

ing for the exercise of judgment on a particular matter of labor and business policy. Such a choice, free from the prohibited pressures—whether to refuse to deal with another or to maintain normal business relations on the ground that the labor dispute is of no concern of his—must as a matter of federal policy be available to the secondary employer notwithstanding any private agreement entered into between the parties . . . (p. 105).

"The employees' action may be described as a 'strike or concerted refusal,' and there is a 'forcing or requiring' of the employer, even though there is a hot cargo provision. The realities of coercion are not altered simply because it is said that the employer is forced to carry out a prior engagement rather than forced now to cease doing business with another. . . . Thus, to allow the union to invoke the provision to justify conduct that in the absence of such a provision would be a violation of the statute might give it the means to transmit to the moment of boycott, through the contract, the very pressures from which Congress has determined to relieve secondary employers.

"Thus inducements of employees that are prohibited under §8(b)(4)(A) in the absence of a hot cargo provision are likewise prohibited when there is such a provision" (p. 106).

Thus it would appear that violation of a valid "hot cargo" clause, or in our case a contractual requirement that work be assigned to a particular craft, will not justify a strike as the means of enforcement.

In *United Mine Workers of America vs. Patton,* 211 F. (2d) 742, 748 (CCA 4, 1954, cert. den. 348 U. S. 824), a bargaining contract was asserted as a defense to an action for damages under 303(a)(2) (29 U.S.C.A. §187 (a)(2)). The court there stated:

> "The argument is made that the strikes here are within the exception of 29 U.S.C.A. §187(a)(2) quoted above, because the purpose of the strikes was to force plaintiffs to recognize and deal with a union with which they had a bargaining contract; but the answer is that the exception applies only where 'such labor organization has been certified as the representative of such employees under the provisions of section 9 of the National Labor Relations Act (29 U.S.C.A. §159)', and there had been no such certification. We know of no principle of law under which we would be justified in enlarging the exception contained in the statute and we are cited to no authority which would justify such action on our part."

Thus it appears that a contractual breach will not justify the use of a strike as the means of enforcement. This is no novel concept. It is not unusual to deny the enforcement of a legal right by illegal means. By way of example, a right of property, not joined with possession, will not justify the owner in committing an assault and battery upon the person in possession for the purpose of regaining possession, although the possession is wrongfully withheld. 6 Am. Jur. (2d) 142, Assault and Battery, §169. Nor may a landlord take the law into his own hands and by force or strategy evict the tenant. *Nelson vs. Swanson,* 177 Wash. 187, 191, 31 P. (2d) 521 (1934). Many other examples will no doubt suggest themselves.

In their fifth Specification of Error (Appellants' Br. 18), appellants contend that this appellee is relegated to the same position as the prime contractor, Montag. With this we disagree. Even if by some theory

Montag were held estopped by an alleged contractual relation with the unions from any right to collect damages for work stoppages, we see no way by which we could be charged therewith. Curtis was but an innocent bystander who sustained severe losses by reason of appellants' violation of the statutory prohibition against jurisdictional strikes. Appellee was a party neither to the contract nor to its breach, if a breach there was. It was a stranger to any such agreement and was not bound by an estoppel arising therefrom.

> 19 Am. Jur. 639, Estoppel, §41;
> 19 Am. Jur. 809, Estoppel, §152, 153.

Moreover, it is the rule that neither estoppel nor private contract can be invoked successfully to avoid the requirements of legislation enacted for the protection of the public interest.

> *Scott Paper Co. vs. Marcalus Mfg. Co.,* 326 U. S. 249, 257, 90 L. Ed. 47, 66 S. Ct. 101 (1945);
> 19 Am. Jur. Supp., Estoppel, §41.

One cannot ordinarily be estopped to assert the direct violation of a decisive statutory prohibition.

> *Commissioner of Banks vs. Cosmopolitan Trust Co.,* 148 N. E. 609 (Mass. 1925); 41 ALR 658, 667;
> 19 Am. Jur. 638, Estoppel, §39.

Neither may the doctrine of estoppel be invoked to thwart declared public policy.

> *Peoples' National Bank vs. Manos Bros.,* 84 S. E. (2d) 857 (S. C., 1954); 45 ALR (2d) 1070, 1087;
> 19 Am. Jur. Supp., Estoppel, §39.

AMOUNT OF DAMAGES

Finally, appellants question the court's allowance of damages in the amount of $42,877.92. Their argument (Appellants' Br. 59-61) goes only to the weight of the evidence and to the sufficiency of appellee's various exhibits and schedules pertaining to damages. By the terms of the Pre-trial Order on Remaining Issues, approved by both counsel (CT 39-42), the statements of plaintiffs' accountant and attached material were admitted as Exhibits 1 and 2 and as the accountant's testimony as to appellee's damages. As contemplated by paragraph 2 of the Agreed Facts (CT 40), the accountant was cross-examined by appellants' counsel and supplemented his reports by further testimony (RT 761, et seq.). "True excerpts" of appellee's payroll for the periods involved herein, were attached (id. par. 3). It was agreed that equipment rental rates in the 1957 edition of the Associated Equipment Distributors' Rental Rate Book (Exhibit 3) provided "acceptable and proper bases for measuring the rental rate of equipment described therein for 1957" (Agreed Facts, CT 40, par. 4). The use of other rental schedules was agreed to for dump-trucks (Ex. 4) and other motor vehicles (Agreed Facts, CT 40, par. 5, 6). Replacement costs and investment were similarly established (id. par. 7).

The use of rental value to determine damages for idled plant and equipment, has many times been recognized.

> 15 Am. Jur. 537-8, 540, 542-3, Damages, §129, 131, 134;

Restatement of Torts, §931;

Denver Building & C. T. C. vs. Shore, 287 P. (2d) 267, 272-273 (Colorado 1955) (Work stoppage, unlawful picketing);

McGill vs. Fuller & Co., 45 Wash. 615, 617, 88 Pac. 1038 (1907) (wrongful attachment);

Stone vs. Hunter Tract Imp. Co., 68 Wash. 28, 33, 122 Pac. 370 (1912) (wrongful injunction);

Gaffney vs. O'Leary, 155 Wash. 171, 175, 283 Pac. 1091 (1929) (wrongful replevin);

Radley vs. Raymond, 34 Wn. (2d) 475, 483, 209 P. (2d) 305 (1949) (wrongful detention under possessory lien);

Holmes vs. Raffo, 60 Wn. (2d) 421, 432, 374 P. (2d) 536 (1962) (automobile collision).

The rental value of industrial plants is commonly used in determining damages for the unlawful deprivation of use.

15 Am. Jur. 542, Damages §134;
John Hutchinson Mfg. Co. vs. Pinch, 51 NW 930-932 (Mich. 1892);

Standard Supply Co. vs. Carter & Harris, 62 SE 150, 151, (S. Car. 1908);

State vs. Freeport Coal Company, 115 SE (2d) 164 (W. Va. 1960).

It was appellants' theory at the trial that appellee was limited to a recovery of interest on invested capital. The cases hold otherwise and resort to interest *only when there is a lack of proof of use or rental value.*

New York & Colo. M. S. Co. vs. Fraser, 130 U. S. 611, 32 L. Ed. 1031, 1035, 9 S. Ct. 665;

Brownell vs. Chapman, 51 NW 249, 250 (Iowa 1892);

Collins vs. Warner, 141 Wash. 162, 164-165, 251 Pac. 288 (1926);

Dunn vs. Guaranty Inv. Co. 181 Wash. 245, 248, 42 P. (2d) 434 (1935).

That the equipment and plant in question were not actually rented and would not have been rented to others during the shutdown periods, is no valid objection to the use of such values in determining damages.

Finn vs. Witherbee, 271 P. (2d) 606, 608-609 (Cal. App. 1954);

Brownell vs. Chapman, 51 NW 249, 250, *supra.*

Overhead is a recognized element of damages in a case involving work stoppages and loss of plant use.

United Electrical R. & M. Workers vs. Oliver Corp., 205 F. (2d) 376, 387-389 (CCA 8, 1953).

Finally, it must be remembered that where the right to damages is established, recovery will not be denied because the measure of damages is uncertain. The wrongdoer must bear the risk of the uncertainty which his own wrong has created.

Bigelow vs. RKO Radio Pictures, 327 U. S. 251, 264-266, 90 L. Ed. 652, 66 S. Ct. 574 (1946).

Appellants' only authority in opposition to this appellee's method of proving damages is *Flame Coal Co. vs. United Mine Workers,* 303 F. (2d) 29 (CCA 6,

1962). That case involved a claim for *lost profits* and plaintiff's evidence was prepared on a theory entirely different from ours. There, the accountant's tabulations were admitted *over defendant's objection* that they were not the best evidence and that the records from which they were prepared should have been made available at the trial for the purpose of cross-examination (p. 45). Here, the schedules were specifically admitted by agreement in the pre-trial order (CT 40) and counsel expressly stated at the trial that he had no objection to their admission (RT 966).

The schedules were prepared by the witness, Joseph P. McFarland, a certified public accountant with twenty-five years of experience (RT 952), much of it with heavy construction firms and in contract interruption and termination cases (RT 953).

Appellants state, "The court was obviously not satisfied with the proofs in the Curtis case, and certainly the appellants were not." (App. Br. 59). We agree that appellants were dissatisfied but believe counsel has overlooked the court's statement, "I make the finding, of course, that substantial damage was suffered by the plaintiff, Curtis Construction Company, as a proximate cause or as a proximate result of the shutdown for which I found liability" (RT 1183). After discussing the various items of damage, such as payroll, taxes, overhead and equipment and plant rental, the court allowed 75 per cent of the payroll claim, 50 per cent of the overhead, 25 per cent of equipment rental and 20 per cent of plant rental (RT 1183-1184). We submit that under the trial court's determination that

"substantial damage was suffered by the plaintiff, Curtis Construction Company" and under the recognized bases for determining damages supplied by appellee, the judgment must be upheld. Certainly it was within the limits of the evidence!

Appellee's figures were substantially discounted, particularly with respect to the major items for idled plant and equipment (RT 1184). We doubt that appellants seriously expect this court now to review the multitude of damage items and substitute its judgment for that of the lower court.

In conclusion, therefore, may we urge that the Curtis Construction Company judgment be affirmed as entered by the trial court.

Respectfully submitted,
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Attorneys for Appellee.

I certify that in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

HART SNYDER

No. 18878

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

LAURENCE FREDERICK ANTHONY,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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No. 18878

IN THE

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FOR THE NINTH CIRCUIT

LAURENCE FREDERICK ANTHONY,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.
JURISDICTIONAL STATEMENT.

This court has jurisdiction under Title 28, United States Code, Sections 1291 and 1294. The jurisdiction of the District Court rested on Title 18, United States Code, Section 3231, Title 21, United States Code, Section 176(a), Title 28, United States Code, Section 2255, and Rule 35 of the Federal Rules of Criminal Procedure.

II.
STATUTE INVOLVED.

The indictment in this case was brought under Title 21, United States Code, Section 176(a), which provides in pertinent part as follows:

> "Notwithstanding any other provision of law, whoever, knowingly, with intent to defraud the

United States, imports or brings into the United States marihuana contrary to law, or smuggles or clandestinely introduces into the United States marihuana which should have been invoiced, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment or sale of such marihuana after being imported or brought in, knowing the same to have been imported or brought into the United States contrary to law, or whoever conspires to do any of the foregoing acts, shall be imprisoned not less than 5 or more than 20 years and, in addition, may be fined not more than $20,000 . . .

"Whenever on trial for a violation of this subsection, the defendant is shown to have or to have had the marihuana in his possession, such possession shall be deemed sufficient evidence to authorize conviction unless the defendant explains his possession to the satisfaction of the jury."

III.

STATEMENT OF THE CASE.

Appellant, Laurence Frederick Anthony, was indicted by the Federal Grand Jury on March 27, 1957, for violations of Title 21, United States Code, Section 176(a) for selling 5 ounces of marihuana on Feb. 23, 1957 and 2 pounds, 5 ounces of marihuana on March 11, 1957, and was convicted on May 23, 1957. On June 10, 1957 [C. T. 2],* the Honorable William C. Mathes, United States District Judge sentenced the appellant, Laurence Frederick Anthony, to the custody of the Attorney General for a period of 20 years and a fine of $5,000 to be paid to the United States for

*C. T.—Clerk's Transcript.

the offense charged in Count One of the indictment and 20 years for the offense charged in Count Four of the indictment, said two 20 year sentences to run consecutively for a total period of 40 years.

A timely notice of appeal was filed and the judgment of conviction was affirmed by this Honorable Court in *Anthony v. United States,* 256 F. 2d 50 (Ninth Cir. 1958). On June 9, 1959, appellant filed in the United States District Court a motion to vacate his sentence pursuant to Title 28, United States Code, Section 2255, alleging insufficiency of the evidence as grounds therefore and said motion was denied on August 25, 1959. On November 9, 1959, appellant again filed a motion pursuant to Title 28, United States Code, Section 2255, to vacate the sentence of the District Court imposed on June 10, 1957, alleging basically the same reasons as in his first 2255 motion and his second motion to vacate sentence was denied on December 31, 1959.

Counsel was appointed by this Honorable Court for the appellant on May 7, 1960. Thereafter, a motion for leave to appeal *in forma pauperis* and to proceed on typewritten briefs was denied by this court on December 6, 1960. In February of 1961, the appellee, United States of America, moved this court to dismiss the appeal from the denial of the 2255 motion for failure to prosecute the appeal as provided in Rule 73 of the Federal Rules of Criminal Procedure. Said motion was granted on March 6, 1961. Certiorari was denied by the United States Supreme Court on October 9, 1961, which is reported in *Anthony v. United States,* 368 U. S. 852 (1961).

On March 22, 1963, appellant filed in the United States District Court for the Southern District of Cali-

fornia, Central Division [C. T. 3, to C. T. 19], a motion to vacate sentence pursuant to Title 28, United States Code, Section 2255, or in the alternative a motion to correct an illegal sentence pursuant to Rule 35 of the Federal Rules of Criminal Procedure. On April 1, 1963 [C. T. 23], appellee, United States of America, filed an opposition to said motions. On April 15, and April 22, 1963, the Honorable Wm. C. Mathes, United States District Judge, heard oral argument on the said motions and the opposition to same. [C. T. 24-25.]

On April 25, 1963, the District Court made its findings of fact and conclusions of law denying appellant's third 2255 motion. [C. T. 26-28.] On May 6, 1963, a timely notice of appeal was filed. [C. T. 29.] Thereafter, the District Court made its order granting leave to appellant to appeal *in forma pauperis.* [C. T. 32, 33.]

IV.
QUESTIONS PRESENTED.

The questions presented by appellant are categorized into three arguments. They are whether there was sufficient evidence to show possession of the marihuana as to him, whether the jurisdictional requirement of unlawful importation of the marihuana was shown and whether a consecutive sentence of twenty years on each count of the indictment is a violation of due process of law and the infliction of cruel and unusual punishment. These questions will be answered by appellee in its brief in the instant appeal.

V.

STATEMENT OF THE FACTS.

Federal Narcotic Agent William C. Gilkey first saw Appellant's codefendant Lucas Landry on February 23, 1957, in Los Angeles [R. T. 9]*, at about 2:00 in the afternoon. The two men had a conversation in which Gilkey asked Landry if the latter knew where the agent could secure a connection for marihuana since he was interested in establishing himself in the marihuana traffic in Pasadena. [R. T. 11.] Defendant Landry stated that he might be able to supply Gilkey with a half pound of marihuana later on in the afternoon. Landry told Gilkey to call him back at 7:00 P.M. [R. T. 13.]

That evening Gilkey called defendant Landry on the telephone and asked the defendant if he had the half pound of marihuana. Landry said he didn't have it then and Gilkey was to call him back within an hour. Gilkey did call back within an hour and Landry asked him to go over to his house. [R. T. 15.]

Gilkey did so at approximately 8:15 P.M., and went in. Gilkey asked Landry if he had the half pound of marihuana and Landry said he didn't have it then but that he had made contact with a man who was to bring marihuana to his house. [R. T. 15, 17.] Gilkey agreed to wait. Later in this conversation, when Landry approached Gilkey with the possibility of the two of them going into the marihuana business together, Landry stated that he could possibly set himself up on the West side, a friend could set himself up out in Compton and Gilkey would cover Pasadena. The idea was for the three of them to pool their money and

*R. T.—Reporter's Transcript.

buy marihuana in large quantities, thus doubling the investment being put into it. [R. T. 18.]

Immediately thereafter the telephone rang and Landry spoke with someone. He stated, "Bring it on. Stud is here." Then Landry told Gilkey that the "stuff" would be there in a few minutes. [R. T. 18.]

About fifteen minutes later, appellant Laurence Frederick Anthony arrived at the apartment house in his 1947 Chevrolet and went inside carrying a brown paper bag of the type normally obtained in a grocery store. [R. T. 21, 113-114.] Landry asked appellant to step into the bedroom located by the living room where Gilkey was waiting. Appellant took the bag into the bedroom. It appeared to Gilkey that the bag contained something. Landry and Anthony remained in the bedroom for about five or ten minutes and then Landry came into the living room and asked Gilkey for $35.00, which was the agreed price for one-half pound of marihuana. Gilkey gave Landry $35.00 of official advance funds. [R. T. 21.] Landry took the $35.00 back into the bedroom where appellant was waiting while Gilkey remained in the living room. Two or three minutes later, appellant left through the front room. Landry then returned to the living room and asked Gilkey to go into the bedroom and see what he had purchased. [R. T. 22-23.]

Gilkey went into the bedroom with Landry who opened a drawer in the dresser in which was a brown paper bag similar to the one that appellant had brought with him. Gilkey looked in the bag at Landry's invitation and they poured the contents of the bag into a newspaper. Upon examining it the substance appeared to Gilkey to be similar to bulk marihuana. [Ex. 1 D;

R. T. 23.] Thereafter, the two men measured the quantity of marihuana contained in the bag [R. T. 26] and Gilkey carried it outside to the Government automobile where the container was initialed. [R. T. 27.]

In the meantime, appellant had gotten into his Chevrolet and left the vicinity. He was there about ten minutes altogether. [R. T. 116-117.]

Agent Gilkey saw the defendant Landry again on February 27, 1957, at approximately 8:45 P.M., in Los Angeles. He had telephoned Landry earlier and had asked him if he could supply another pound of marihuana. Landry had told Gilkey that the agent would have to call him again because his "connection" would not be home until later. [R. T. 29.] A "connection" was a source of narcotics. [R. T. 14.] Gilkey agreed and telephoned Landry shortly after 7:00 P.M. At that time Landry still had not heard from his connection but told Gilkey to come on by his house within an hour. [R. T. 29.]

At about 8:45 P.M. Gilkey arrived at Landry's home and went in. Gilkey asked Landry if the latter had the marihuana and the answer was yes. Gilkey was asked to come into the bathroom and see the marihuana, Landry explaining that the last time in the bedroom marihuana seed and debris had been scattered everywhere and he didn't want that to happen again. Landry told Gilkey the marihuana would cost him $70.00 since the price was still $35.00 for each half pound. The agent examined one of the bags and told Landry it looked all right. [R. T. 29-30.] Landry again approached Gilkey with the idea of the two of them going into the marihuana business together and Gilkey said he would think about it. He then gave Landry

$70.00 of official advance funds and Landry told him to call him when the agent got back into town. Gilkey then left after stating he might possibly do business with Landry the following weekend. [R. T. 31.]

In the meantime, appellant Anthony had been observed parked near the apartment as agent Gilkey went in. After Gilkey left, codefendant Landry came out and went over to appellant's car, got in and stayed a few minutes. He then got out and appellant left. [R. T. 117-119, 161-162.] (Appellant was not charged as a defendant in Count 2 relating to the above transaction.)

Agent Gilkey saw defendant Landry again on March 7, 1957, having previously called him at approximately 5:00 in the afternoon. Gilkey asked Landry if the latter could get two pounds of marihuana. Defendant Landry said to call him back around seven o'clock. After a couple of other calls Landry instructed the agent to go to his house, which Gilkey did around 8:15 P.M. Landry invited him in and said he had two pounds of marihuana. [R. T. 38.] He went to the rear of his house and returned with the marihuana. It was contained in a brown bag which codefendant Landry was carrying with him as he came back into the front portion of the place. Meanwhile, appellant Anthony's car was parked at the rear of the building. [R. T. 120, 163.] Inside, Gilkey was told by Landry that the price of the two pounds was $140.00, as it was still selling at $35.00 a half pound. Gilkey took the brown bag and walked to a Government automobile. While this happened, appellant had gotten in his car and circled the block, returned and parked near the apartment. After Gilkey left, codefendant Landry came out to appellant's car and got in for a few minutes. Then he went back to the apartment and appellant

departed. [R. T. 121-122, 164-165.] Later, at his office Agent Gilkey found that he had been shorted on the quantity of marihuana and immediately telephoned Landry in that respect. Landry said the marihuana had been brought to him that way and the "man" was the person responsible for the shortage in weight. Gilkey asked Landry to do something to make the weight up and the latter said he would look into it on a later date. [R. T. 41.] (Appellant was not charged in Count Three relating to this transaction.)

The next time Gilkey saw Landry was on the 11th day of March, 1957, at the defendant's home at around 8:15 P.M. [R. T. 45.] Earlier that afternoon he had spoken with Landry over the telephone. Gilkey asked the defendant if he had spoken with his source of supply about making up the half pound difference in the marihuana which had been shorted. Gilkey was told that the "man" said he would make up one-quarter pound but not one-half a pound. Gilkey then asked Landry if the agent could pick up two pounds of marihuana from him that evening. Landry told him that he could do so with a telephone call being made in advance of his visit. About seven o'clock, Gilkey phoned Landry, who stated that he hadn't heard anything as yet. Gilkey phoned back at 7:45 and arrangements were made for him to drop by Landry's house to pick up the marihuana. Gilkey arrived at Landry's house, parking his car in the rear driveway according to Landry's instructions. He then went into the house. [R. T. 45-47.] About five or ten minutes later the bell rang. [R. T. 49.] Appellant had gotten out of his car and walked to the rear portion of the address. [R. T. 153.] Landry answered the door at the rear. He went out to appellant's car and returned to the rear with a brown paper bag. [R. T. 153-154.] When

he reappeared in the living room, Landry had the brown paper sack in his hand and said to Gilkey "Here's your stuff." [R. T. 49.] Gilkey glanced in the top of the bag and looked in observing a substance that appeared to be marihuana. [Ex. 4 A-1.] Landry again approached him with the idea of going into the marihuana business together. Gilkey told him he would talk to him about it later and gave Landry $140.00 which had been requested as the price of two pounds of marihuana. Landry asked Gilkey to step through the kitchen and leave by the rear door which he did. As he got into his automobile he observed an automobile parked directly behind him blocking the driveway leading to the street. Gilkey asked Landry to do something about moving the car and the latter walked over to the automobile and spoke through the window. Gilkey recognized appellant as being in the front seat of the vehicle. Shortly thereafter, Anthony backed the automobil out and Gilkey followed with his own automobile, leaving the premises. Codefendant Landry then went over to appellant's car and got in for a few minutes. Shortly thereafter appellant left. [R. T. 155-156.] The bills comprising the $140.00 given to Landry on this occasion had been noted previously according to serial numbers. [R. T. 57-58.] Appellant was arrested at approximately 9:00 P.M., on the same evening pursuant to a warrant previously issued. The $140.00 was found on his person as well as the two bags of marihuana in his car. [R. T. 126-127(a), 156, 158.]

Appellant was convicted on Counts one and four respectively of unlawfully selling 5 ounces of marihuana on February 23, 1957 and 2 pounds 5 ounces of marihuana on March 11, 1957 which had been previously imported into the United States contrary to law.

VI.

SUMMARY OF ARGUMENT.

A. The District Court Had Jurisdiction of the Subject Matter Because There Was Sufficient Evidence and Clear and Convincing Proof of Possession of a Narcotic Drug by the Appellant.

B. The District Court Had Jurisdiction of the Subject Matter Because There Was More Than Sufficient Evidence to Show that the Marihuana Was Unlawfully Imported With the Knowledge of Appellant.

C. The Sentence in Appellant's Case Is Not in Excess of That Authorized by the Applicable Statute and Is Not Violative of the Fifth and Eighth Amendments to the Constitutions of the United States.

VII.

ARGUMENT.

A. The District Court Had Jurisdiction of the Subject Matter Because There Was Sufficient Evidence and Clear and Convincing Proof of Possession of a Narcotic Drug by the Appellant.

Appellant maintains and submits to this Court that the "jurisdictional" facts of possession of the marihuana involved in the sales of February 23, and March 11, 1957, were not shown as to himself by any clear and convincing proof or evidence in the trial court.

Any raising of the question of the sufficiency of the evidence as to appellant's conviction at this time is moot, as in the trial court, there was no motion on behalf of appellant for a judgment of acquittal either at the close of the Government's case, or at the con-

clusion of all the evidence in the case. [R. T. 219 and 330.]

> *White v. U. S.* 317 F. 2d 231 (9 Cir. 1963); *Ege v. U. S.,* 242 F. 2d 879 (9 Cir. 1957); *Mosca v. U. S.,* 174 F. 2d 448 (9 Cir. 1949).

However, for the sake of argument, there was more than sufficient evidence to show possession of the marihuana in the appellant, both on February 23 and March 11, 1957, for the jury to return with a verdict of guilty.

Federal narcotics Agent William C. Gilkey personally arranged to make a purchase of marihuana from the appellant's codefendant Lucas Landry on the afternoon of February 23, 1957. [R. T. 9.] The evidence in the trial court was clear and convincing that Landry would have to obtain the contraband from a "connection" which is a source for obtaining same. [R. T. 15, 17.]

Landry even had conversations with Gilkey asking the latter to combine their resources and venture into the narcotics business, with Landry covering the West side of town, Gilkey covering Pasadena, and a friend covering Compton. [R. T. 18.] Gilkey went to Landry's house to obtain the narcotics, after learning from Landry that a third man was to deliver it to Landry's house. After arriving at Landry's residence, Gilkey heard the phone ring, and an obvious conversation took place between Landry and a third person arranging for the delivery of the marihuana. [R. T. 18.] A short while later, the appellant arrived carrying a brown paper bag. [R. T. 21, 113-114.] Both appellant and Landry then went into the bedroom.

Five or ten minutes elapsed and Landry came out and asked Gilkey for $35, the purchase price of the ma-

rihuana. [R. T. 21.] Gilkey gave it to Landry and the latter went back to the bedroom where appellant was waiting. Two or three minutes later appellant left.

Gilkey was then invited by Landry into the same bedroom and shown a similar brown paper bag as carried by appellant earlier. Inside this bag was bulk marihuana. [R. T. 22, 23.]

Sales of marihuana took place between Gilkey and Landry in Landry's home on February 27 and March 7, 1957, and either appellant or his automobile was seen in close proximity to Landry's residence on both of these occasions. Appellant was not indicted for these last two mentioned sales of marihuana, but certainly the jury could consider the fact of his close presence at the location of these two sales for the purpose of intent, to negative mistake and the issue of state of mind to infer and establish guilt as to appellant, as to the marihuana sale of February 23, 1957.

The next time Gilkey saw Landry was on March 11, 1957. Gilkey went to Landry's house to purchase marihuana. [R. T. 45.] He parked his car in the rear driveway. He went into the house. Prior to Gilkey going to the house, he had talked to Landry, and it was communicated to Gilkey by Landry that a third party was to deliver the marihuana to Landry's house. [R. T. 45-47.]

Five or ten minutes later, the door bell rang. [R. T. 49.] Appellant was at the door. [R. T. 153.] Landry and the appellant went to appellant's automobile Landry then returned alone and went into the house with a brown paper bag containing marihuana. [R. T. 153-154.] Gilkey gave Landry $140 of previously

marked money, received the marihuana and then went to his car.

Gilkey noticed a car blocking his egress to go out of the driveway. He asked Landry to do something about moving the car. Landry went over to the car and spoke through the window to appellant who was sitting in the vehicle. Appellant backed his car out of the driveway, in order to let Gilkey leave. Gilkey left. Landry then got into appellant's car and stayed a few minutes. Appellant then left [R. T. 155-156], and was arrested a short while later. On his person was found the previously marked $140 and in his car was found two bags of marihuana. [R. T. 126-127(a), 156-158.]

As to these two bags of marihuana, the trial court [R. T. 128-129], carefully instructed the jury that they were not to consider this marihuana for the purpose of convicting appellant of the sales of February 23 and March 11, 1957. The evidence of the existence of it however, was to be received for the sole purpose of again, negativing mistake, and to show state of mind or intent.

Based upon the statement of the facts mentioned above, it is the appellee's contention that there was more than sufficient evidence, and quite to the contrary overwhelming clear and convincing proof of either constructive or actual possession of marihuana in the appellant, both on February 23 and March 11, 1957.

It is well established law that the Government may prove possession and knowledge thereof of narcotics by circumstantial evidence alone.

> *Rodella v. U. S.*, 286 F. 2d 306 (9th Cir. 1960), cert. den. 365 U. S. 889 (1961);

Green v. U. S., 282 F. 2d 388 (9th Cir. 1960), cert. den. 365 U. S. 804 (1961);

Covarrubias v. U. S., 272 F. 2d 352 (9th Cir. 1959);

Johnson v. U. S., 270 F. 2d 721 (9th Cir. 1959), cert. den. 362 U. S. 937 (1960).

In *Evans v. United States,* 257 F. 2d 121 (9th Cir. 1958), cert. den. 358 U. S. 866 (1958), the Court stated at page 128:

> "Proof that one had exclusive control and dominion over property on or in which contraband narcotics are found is a potent circumstance tending to prove knowledge of the presence of such narcotics, and control thereof."

A person also may be so sufficiently associated with the person having physical custody of the contraband, as when he is able, without difficulty, to cause the drug to be produced for a customer that he may be found by a jury to have dominion and control over the drug, and hence possession which if not explained satisfactorily to the jury, would be enough to convict.

United States v. Hernandez, 290 F. 2d 86 (2d Cir. 1961);

Cellino v. United States, 276 F. 2d 941 (9th Cir. 1960);

United States v. Malfi, 264 F. 2d 147 (3rd Cir. 1959), cert. den. 361 U. S. 817 (1959).

Further, this control or dominion can be shared with others and this fact would not destroy this constructive possession.

Lucero v. U. S., 311 F. 2d 457 (10th Cir. 1962), cert. den. 372 U. S. 936 (1963);

Gallegos v. U. S., 237 F. 2d 694 (10th Cir. 1956).

This Court stated in *Medrano v. U. S.,* 315 F. 2d 361 (9th Cir. 1963), at page 362:

> "Possession [of narcotics] of any sort is sufficient to raise the presumption and to place upon the accused the burden of explaining the possession to the satisfaction of the jury. Pitta, v. United States, 9 Cir., 1947, 164 F. 2d 601, 602; Cellino v. U. S., 9 Cir., 1960, 276 F. 2d 941."

In a recent opinion by this Court in *White v. United States,* 315 F. 2d 113 (9th Cir. 1963), the decisions of *Rodella, supra,* and Cellino, supra were reaffirmed at page 115:

> "Possession need not be actual possession, if there is circumstantial evidence sufficient to establish dominion of control."

It is respectfully submitted to this Court based upon the above authorities cited by appellee, that sufficient dominion and control by appellant of the marihuana sold by Landry to Gilkey on February 23 and March 11, 1957, was established by the evidence in the trial court to show possession in the appellant and a knowledge it was marihuana he possessed.

Appellant at no time sufficiently explained his possession to the satisfaction of the jury. This was enough to convict appellant of the crime of selling marihuana which had been unlawfully imported into the United States.

In contrast to the holding of *Williams v. U. S.,* 290 F. 2d 451 (9th Cir. 1961), the Government in appellant's case produced sufficient evidence from which possession, either actual or constructive, could be honestly, fairly and conscientiously inferred. Finally,

it is an established doctrine that this Court will not undertake the task of determining that the evidence was insufficient because of beliefs that inferences inconsistent with guilt may be drawn from it. If this Court did so it would become a trier of fact. Possession was a factual question for the jury whose determination should not be disturbed on appeal.

> *Green v. U. S., supra:*
>
> *Stoppelli v. U. S.,* 183 F. 2d 391 (9th Cir. 1950), *cert. den.* 340 U. S. 864 (1950).

The judgment of the Court denying appellant's motion for a correction of an illegal sentence or in the alternative to vacate the sentence should be affirmed.

B. The District Court Had Jurisdiction of the Subject Matter Because There Was More Than Sufficient Evidence to Show That the Marihuana Was Unlawfully Imported With the Knowledge of Appellant.

Appellant maintains (App. Op. Br. p. 10) that as to marihuana, as distinguished from heroin and opium, the Government must prove besides unexplained possession in him some "indicia of foreign origin". He cites *Caudillo v. United States,* 253 F. 2d 513 (9th Cir. 1958), for the proposition that socalled "unmanicured" marihuana, *i.e.* containing seeds, sticks and stems must be shown to be possessed by him because a full grown plant containing this material would never grow in the United States as compared to some foreign country.

If the Court were to accept this argument it could easily affirm the judgment of the district court by

looking at the testimony on pages 30 and 86 of the reporter's transcript. That testimony is to the effect that there were *seeds and debris* in the marihuana which Gilkey purchased from codefendant Landry on February 23, 1957. Appellant's entire argument on his second specification of error is erroneous because of this testimony in the record.

However, instead of terminating this subject at this point appellee would respectfully submit to this Court that the holding in the recent case of *Costello v. United States,* 324 F. 2d 260 (9th Cir. 1963), is the proper and logical ruling on the question of knowledgeable possession of marihuana with the subsequent arising of the presumption of unlawful importation.

It would be absurd to distinguish between the presumptions contained in Title 21, Sections 174 and 176-(a) and hold that some indicia of foreign origin must be shown as to marihuana such as the "unmanicured" state before the presumption of unlawful importation for federal jurisdiction would arise.

In *Butler v. United States,* 273 F. 2d 436 (9th Cir. 1959), the Court stated at page 438:

> "Appellants urge that even though they may fail to change this Court's broad holding as to the constitutionality of the 'possession' clause in the last paragraph of §176a, this Court should interpret 'the marihuana' in the possession clause to refer to illegally imported marihuana, and hence there must be some evidence of illegal importation of the marihuana seized before any presumption sufficient to authorize conviction can come into existence.

The government has no practical method to trace back through one or a dozen hands to the person who originally grew the weed. If it had the means to so trace the paths of commerce to the plant's origin, there would be no need of any rule of evidence presuming importation, for importation could either be proved by the government, or the government would establish the marihuana as home-grown, and the government's case would fail.

Appellants' counsel urges that in the possession clause of § 176(a) Congress purposely uses the word 'the' with reference to marihuana, and not the word 'any'. We point out that the first previous reference to imported marihuana in § 176(a), after the word marihuana is first mentioned, is to 'such marihuana'. (Emphasis added.) When referring to marihuana in the possession paragraph, the Congress has apparently intentionally and carefully referred, not to such (i.e., imported) marihuana, but to 'the marihuana in his possession.' (Emphasis added.)

The presumption created is 'a rule, not of substantive law at all, but merely of evidence.' Ng Choy Fong v. United States, 9 Cir., 1917, 245 F. 2d 305, 307; Stein v. United States, 9 Cir. 1948, 166 F. 2d 851, certiorari denied 334 U. S. 844, ...

There would be no purpose in creating such an evidentiary rule were it applicable only to marihuana proved to have been imported illegally. We refuse to follow appellants' attempted distinction."

The Court went on to state that there was some physical evidence in the record such as in *Caudillo, supra,* that the marihuana was unmanicured. It pointed out that within the United States, both federal and state law enforcement agencies continually watch for this illegal growing plant. As a result of this observation, the plants leaves which are capable of producing marihuana are stripped off and dried long before the plant reaches maturity and therefore it does not flower so it cannot contain seeds.

Appellee submits to this Court that the reasoning of the Caudillo decision is not proper as far as showing that the marihuana has to have some foreign indicia of origin. It is obvious that the holding of *Costello, supra,* is proper and is a latter expression by this Court of the validity of the presumption contained in Title 21, United States Code, Section 176(a).

Whether the government shows some indicia of foreign origin is just another additional factor which the jury can weigh in order to decide whether the contraband was grown outside the United States and therefore imported unlawfully. The fact that marihuana is not shown to have stems, sticks or seeds in it does not render the presumption of unlawful importation arising from mere unexplained possession alone invalid.

As was said in *Costello, supra,* at page 263:

> "Appellant's second argument is based upon the contention that the record shows (a) that marihuana 'grows all over the United States . . . in the warm climates and the temperate climates,' and (b) that the particular marihuana here in question was 'manicured,' i.e., made up entirely of leaves, and that in the Caudillo and Butler cases

we took note of the fact that while 'unmanicured' marihuana is seldom produced in the United States, 'manicured' marihuana is seldom imported. The record in this case contains no such evidence. In Caudillo we pointed out that we know of no medical or scientific use to be made of marihuana, save perhaps for occasional testing in order to make scientific comparisons with other narcotics, barbiturates and amphetamines. We also note that the growing of marihuana is illegal in several states including California (the state there involved), and that by far the larger part of all marihuana found within the United States is imported. In Alaska, as in California, the growing or possession of marihuana is illegal. . . . The fact that the marihuana involved in Butler and Caudillo was 'unmanicured' was imply an additional factor entering into the decision in those cases.

Those cases certainly establish the proposition that the mere fact marihuana can be and is grown in the United States does not render the statute invalid. The only additional fact suggested here is that the particular marihuana appears to have been 'manicured.' However, this fact alone is not enough to require a decision that the statute is invalid as applied to Costello. . . ."

Also, the Court stated in *Caudillo, supra,* that the strength of any inference of one fact from proof of another depends upon the generality of the experience upon which it is founded. There is definitely a rational connection between the fact proved *i.e.* that appellant was in possession of marihuana with knowledge

thereof and the ultimate fact presumed, *i.e.* that said marihuana was imported contrary to law.

Even though some marihuana concedely grows wildly in certain parts of the United States (which probably represents a minute portion of all the marihuana illegally sold in this country) the presumption contained in Section 176(a) should not be defeated by requiring the government to show it had other material in it besides leaves. If this be so then the next step to undertake would be to require the government to show from where heroin was derived in Title 21, United States Code, Section 174 prosecutions. It is not so highly improbable that the plant from which heroin is derived in some devious manner could be grown domestically.

Also, if the government must prove indicia of foreign origin, what is to stop a defendant from separating the seed and other foreign matter from the leaves and disposing of same. If he is caught with just the leaves in his possession, he can say that he either grew the plant in his back yard or found it growing somewhere in a field. He could therefore deprive the Federal Courts in all cases of their rightful jurisdiction in these matters.

It is respectfully submitted that when Congress placed the identical presumptions of unexplained possession both in Sections 174 and 176(a), it was not their intention to have one distinguished from another. It is just as logical to presume that marihuana was grown outside of the United States the same as heroin. This Court was correct in *Costello, supra,* by stating that the "unmanicured" state of the marihuana is just another factor to consider to show foreign origin, but is

not the only factor, and therefore the presumption is not rendered ineffective by not showing the "unmanicured" state.

In *United States v. Kapsalis,* 313 F. 2d 875 (7th Cir. 1963), cert. den. 374 U. S. 856 (1963), at page 876 the Court stated:

> "A government witness on cross examination testified that marihuana is a plant indigenous to the United States; that it grows almost any place; that it grows in large quantities along the Sanitary District Canal in and around Chicago; it grows in back yards and under certain conditions can be grown in a flower pot on a window sill. He admitted that he did not know whether the marihuana found in defendant's possession was of foreign or domestic origin and, further, that the contents of the vial were all 'ground up leaves.' "

At page 877 the Court stated:

> "The question for decision, therefore, is whether possession alone under the circumstances shown was sufficient to authorize a conviction or, to state the question another way, whether such possession was sufficient to justify a finding that the marihuana was imported with knowledge on the part of the defendant."

Further, on page 877 the Court stated:

> "The presumption provision contained in Sections 174 and 176(a) has been treated in pari materia. See United States v. Taylor, 266 F. 2d 310 (7 Cir.); Caudillo v. United States, 253 F. 2d 513 (9 Cir.). Congress when it inserted the provision in the latter Section undoubtedly was

aware that the same provision had long been included in the former, and must be assumed to have had knowledge of the manner in which courts in many decisions had applied and given effect to the presumption provision."

On page 878 the Court finally concluded by stating:

"We agree with the Government's argument that if a reasonable doubt arises as to importation or defendant's knowledge thereof merely from the fact that marihuana is domestically produced, the provision would in effect be rendered nugatory. This is not to say, of course, that there may not be a case, although we suspect it is rare, where a defendant may be able to 'explain his possession to the satisfaction of a jury.'

"It is the possession however, which must be explained and in the instant case the defendant made no effort to do so; in fact, he was not asked, either by his own counsel or by that of the Government as to how possession was acquired. Defendants denial of knowledge of the contents of the vial and whether its contents were imported was no explanation of possession.

In any event, the explanation which the defendant offers must be to the satisfaction of the trier of facts. Here, the trier concluded that the so-called explanation was not satisfactory and we see no reason to substitute our judgment for his."

The Court stated in *United States v. Gibson,* 310 F. 2d 79 (2 Cir. 1962) at page 82:

"It is well settled that the inferences upon which the statutory presumption in 21 U. S. C. § 174

(heroin) is based are reasonable, and that the statute is constitutional. See Yee Hem v. United States, 268 U. S. 178 . . . United States v. Savage, 292 F. 2d 264 (2 Cir. 1961) and cases cited therein. Hillary contends that marihuana can be grown in the United States and, therefore, there is no rational connection between the possession of marihuana and illegal importation and knowledge thereof. He distinguishes Caudillo v. United States, 253 F. 2d 513 (9 Cir. 1958), where the Ninth Circuit upheld the marihuana statute here in question on the ground that the evidence there showed that the marihuana was imported. However we do not rely on Caudillo. This record does not contain any information as to the amount of marihuana grown in the United States, nor are we referred to any authority on the subject. We have no reason to believe, on the basis of this record, that Congress' enactment of the presumption in § 176a with regard to marihuana is any less reasonable than that in § 174 with respect to narcotic drugs."

There is nothing in this case's record to show how much marihuana is grown in the United States as compared to that grown abroad. On the contrary, as noted above, there is testimony to show the marihuana had seeds and other foreign matter in it and therefore was "unmanicured."

We submit to this Court, however, that whether the marihuana was manicured or unmanicured is not the determining factor to show unlawful importation. All that need be shown is unexplained possession in the

appellant. This was shown. The judgment of the Court denying Appellant's motion for a correction of an illegal sentence or in the alternative to vacate the sentence should be affirmed.

C. The Sentence in Appellant's Case Is Not in Excess of That Authorized by the Applicable Statute and Is Not Violative of the Fifth and Eighth Amendments to the Constitution of the United States.

The appellant was indicted in Counts 1 and 4 of a four count indictment along with his codefendant, Lucas Landry. Count 1 charged as follows:

> "On or about February 23, 1957, at Los Angeles County, California, within the Central Division of the Southern District of California, defendants Lucas Landry and Laurence Anthony, after importation and with intent to defraud the United States, did knowingly and unlawfully sell and facilitate the sale of approximately five ounces of bulk marihuana to William C. Gilkey, which said marihuana, as the defendants then and there well knew, had been imported into the United States contrary to law."

Count 4 was the same except it alleged a sale on or about March 11, 1957, involving two pounds, five ounces of marihuana.

Appellant was found guilty by jury trial and on June 10, 1957 [C. T. 2], he was sentenced as follows:

> "It is adjudged that the defendant has been convicted upon his plea of not guilty and a verdict of guilty of the offenses of on or about February 23, 1957, and on or about March 11, 1957,

> . . . after importation and with intent to defraud the United States, did knowingly and unlawfully sell and facilitate the sale of bulk marihuana, which marihuana, the defendant then and there well knew had been imported into the United States contrary to law, as charged in Counts 1 and 4 of the indictment. . . . It is adjudged that the defendant is hereby committed to the custody of the Attorney General . . . for a period of 20 years and pay a fine unto the United States in the sum of $5,000 for the offense charged in Count 1 of the indictment . . .; and 20 years for the offense charged in Count 4 of the indictment, the two twenty-year sentences shall run consecutively so that the total period of imprisonment shall be forty years."

Title 21, United States Code, Section 176(a) provides that for a person convicted of this section for the first time, he or she shall be imprisoned not less than 5 nor more than 20 years and, in addition, may be fined not more than $20,000. Appellant's argument (App. Op. Br. p. 23), that Congress did not intend to provide multiples of 20 years for immediately consecutive individual transactions constituting elements of the same offense, might be correct if this Court were faced with that particular situation. However, as noted above, appellant was convicted for two independent sales of marihuana, one taking place on February 23, 1957, and the other on March 11, 1957. Approximately 16 days passed between the two sales.

When Congress legislated both sections 174 and 176(a) of Title 21, United States Code, into existence, its intent was to make receiving, concealing, buying,

selling, facilitating the transportation, facilitating the concealment of or facilitating the sale of marihuana or any narcotic drug each separate and independent crimes or they would not have bothered to include each in the respective statutes.

> *Burton v. United States,* 202 U. S. 344 (1906);
> *Torres Martinez v. United States,* 220 F. 2d 740 (1st Cir. 1955).

As was stated in *Gore v. United States,* 244 F. 2d 763 (D.C. Cir. 1957) at page 765:

> "The authorities are unanimous that a defendant may be convicted and sentenced under each of several counts of an indictment if each count states a different offense. The test of whether separate offenses are charged is whether some different evidence is essential to each count, or whether each count is supported by the same evidence. We said recently in Kendrick v. United States, 1956, 99 U.S. App. D.C. 173, 238 F.2nd 34:
>
> 'The test of identity is whether the same evidence will sustain both charges. If one of these offenses requires an element of proof which the other does not, a conviction of one does not bar prosecution for the other.' Id., 238 F.2d at page 36.
>
> "See also Blockburger v. United States, 1932, 284 U.S.299, 52 S.Ct. 180, 76 L.Ed. 306."

There is no question that the offenses charged in the indictment in appellant's case were different and separate offenses. They were committed on different

days; and the test of identity of offenses is whether the same evidence is required to sustain them.

> *Albrecht v. United States,* 273 U. S. 1 (1926);
> *Morgan v. Devine,* 237 U. S. 632 (1915);
> *Everett v. United States,* 227 F. 2d 457 (6 Cir. 1955).

Since they were different offenses the statute (Section 176(a)), provides for a maximum period of incarceration on each offense of 20 years. The District Court sentenced appellant to the custody of the Attorney General for a period of 40 years. This does not violate the spirit of the statute. It is not illegal and the lower court was correct in not reducing or correcting it under Rule 35 of the Federal Rules of Criminal Procedure.

The sentences given the appellant by the District Court were within the limits allowed by Section 176(a). as this court stated in *Brown v. United States,* 222 F. 2d 293 (9 Cir. 1955), at page 298:

> "The subject stressed on this appeal is the severity of the sentences meted out to appellant. And he urges us to reduce and modify the sentences. " 'If there is one rule in the federal criminal practice which is firmly established, it is that the appellate court has no control over a sentence which is within the limits allowed by a statute.' Gurera v. United States, 8 Cir., 1930, 40 F.2d 338, 340."
> *Young v. United States,* 286 F. 2d 13 (9 Cir. 1960), cert. den. 366 U. S. 970 (1961);
> *Flores v. United States,* 238 F. 2d 758 (9 Cir. 1956).

Also the action of the District Court in sentencing the appellant to the custody of the Attorney General for a 40-year period of incarceration was not an arbitrarily or capriciously applied act and therefore did not deny the appellant of due process of law in violation of the Fifth Amendment of the United States Constitution.

As was said in *United States v. Chicago Professional Schools, Inc.,* 290 F. 2d 285 (7 Cir. 1961), at page 286:

> "Defendant Keane strongly urges that the punishment imposed by the trial judge upon her was cruel and unusual and forbidden by the Eighth Amendment to the United States Constitution. In order to try to understand why the trial court imposed such a heavy sentence, we have taken upon ourselves the burden of carefully reading many hundreds of pages of typewritten transcript of the evidence. We also have carefully noted the comments and remarks of the trial judge during the trial. We still are at a loss to understand why a prison sentence of five years was imposed upon Doris Keane who had no previous criminal record of any kind."
>
> "The writer of this opinion, based in part upon his nearly ten years' experience as a Federal Trial Judge, agrees with appellant that the sentence imposed upon her was severe. It may well be that many other Federal District Judges would have imposed a lighter sentence in this case.
>
> It generally is recognized that disparity of sentences for similar criminal offenses, creates serious problems. Recently, Congress has provided for

the holding of institutes on sentencing in the various judicial circuits. It is the hope of the sponsors of this legislation and of Congress that the great disparity of sentences in Federal District Courts now all to prevalent, might, to some extent, be avoided.

Judges on our United States District Courts come to the bench with different backgrounds and varying legal or judicial experiences. They bring to the bench different attitudes, values and standards. It seems quite evident that their will always exist different views as to the nature and amount of punishment to impose in criminal cases.

However, the disparity in sentences and injustices caused because of the severity of sentences might be alleviated to some extent, if the District Judges would utilize the provisions of recent legislation which Congress has enacted.

Among such provisions is Title 18, U.S.C. Section 4208 which provides a sentencing judge may designate a minimum term at the expiration of which the prisoner shall become eligible for parole, which term may be less but not more than one third of the maximum sentence imposed by the Court. Under another provision of this section, the Court may fix the maximum sentence and provide the prisoner may be eligible for parole after such time as the board of parole may determine.

However, the sentence of Doris Keane was within the maximum which might have been imposed under the statute. Under repeated decisions of this Court such as United States v. Hetherington, 7th Cir., 279 F.2d 792, 796; United States v. De

> Marie 7th Cir., 261 F.2d 477, 480; United States v. Kapsalis, 7th Cir., 214 F.2d 677, 684; . . . we hold the judgment must be and is affirmed."

Neither parole nor probation nor the provisions of Title 18, United States Code, Section 4208 are allowed when sentencing a person for violation of Title 21, United States Code, Section 176(a) according to Title 26, United States Code, Section 7237.

Congress has provided a twenty year maximum period of imprisonment in Section 176(a). The sentences in this case were within those limits. The District Court in exercising its discretion when sentencing appellant was well aware of all factors pertaining to appellant's particular background and circumstances. Whether the Court decided to sentence appellant to a minimum mandatory sentence of five years or the maximum of twenty years was within its discretion. This Court has no right to disturb those sentences for if it did it would be acting as a trial court and this is not its function.

Appellant attacks the sentence in this case as being violative of the Eighth Amendment to the Constitution to the United States. In *Pependrea v. United States,* 275 F. 2d 325 (9th Cir. 1960) the Court stated at page 329:

> "It is well settled that a sentence within a valid statute cannot amount to 'cruel and unusual punishment,' and that when a statute provides for such punishment, the statute only can be attacked."

Russell v. United States, 288 F. 2d 520 (9th Cir. 1961), cert. den. 371 U. S. 926 (1962), clarifies the issue even more as the Court stated at page 524:

> "We presume we were intended to be referred to Bryson v. United States, 9th Cir., 1959, 265 F. 2d 9, which is in point, holding that the sentence in the case, being within the limits fixed by the statute, should not be disturbed on appeal by any claim it was cruel or unusual. (Id. at page 13.) In Bryson, the sentence imposed was the maximum permitted by the statute. Here, of course, it was not. In holding that the maximum term of imprisonment so imposed was not cruel or unusual punishment, this Court followed a long line of cases establishing the rule in this circuit, and in other jurisdictions, holding that the Court of Appeals has no jurisdiction to substitute its judgment for that of the trial judge, so long as the sentence is within the period prescribed as maximum punishment. (Cases omitted)."

Appellant is not questioning the validity of Title 21, United States Code, Section 176(a). He questions the validity of the sentence under the statute. Again appellee respectfully submits to the Court that it was within the discretion of the District Court to sentence appellant to forty years imprisonment. It was not a violation of due process of law or cruel or unusual punishment.

The District Court was well within its legal right when it sentenced appellant to consecutive sentences of twenty years each. Sentences for separate crimes may be consecutive.

> *Sherman v. United States,* 241 F. 2d 329 (9th Cir., 1957, cert. den. 354 U. S. 911 (1957);

Ellerbrake v. King, 116 F. 2d 168 (8th Cir. 1940);

Brown v. Johnson, 91 F. 2d 370 (9th Cir., 1937), cert. den. 302 U. S. 728 (1937);

Parmagini v. United States, 42 F. 2d 721 (9th Cir., 1930) cert. den. 283 U. S. 818 (1930).

One further comment is necessary by appellee. Appellant cites (appellant's Opening Br. p. 28) *Weems v. United States,* 217 U. S. 349 (1910) for the proposition that the length of a particular sentence may amount to cruel and unusual punishment the same way it applies to the methods used to enforce a particular sentence.

At page 355 of the *Weems* decision the Court stated:

> "The prohibition of cruel and unusual punishment has no application to a punishment which only exceeds in degree such punishment as is usually inflicted in other jurisdictions for the same or like offense."

Also on page 356 the Court stated:

> "There is nothing cruel or unusual in a long term of imprisonment, as the words are used in the Bill of Rights. The description there refers rather to multilations and degradation, and not to length or duration of the punishment."

The holding in the *Weems* case, it is true, was to the effect that the Philippine law in dealing with the punishment in that particular case was cruel and unusual. But, the crime was making a knowingly false statement by a public official in a public record. The penalty was fine and imprisonment in a penal institution at hard and painful labor for a period ranging from

twelve years and a day to twenty years, the prisoner being subjected, as accessories to the main punishment, to carrying during his imprisonment a chain at the ankle hanging from the wrist, deprivation during the term of imprisonment of his civil rights, and subjection besides to perpetual disqualification to enjoy political rights, hold office, etc., and, after discharge, to the surveillance of the authorities. It is conceded that this is cruel and unusual punishment as defined in our Bill of Rights.

However, appellee respectfully submits to this Court that the length of a sentence, be it even more than is usually given in other districts, is not cruel and unusual punishment protected by the Eighth Amendment. The quantum of the punishment is not protected. It is only the quality as in the *Weems* decision, *supra.*

In *United States v. Kawakita,* 96 F. Supp. 824 (S.D. Cal. 1950), the defendant had been convicted for eight overt acts of treason against the United States. He was sentenced to death according to the applicable statute. The statute, Title 18, United States Code, Section 2381 (1927 Ed.) also provided that in the discretion of the Court, the defendant could be imprisoned not less than five years and fined not less than $10,000 and would be incapable of holding any office under the United States.

The United States Court of Appeals for the Ninth Circuit affirmed the judgment in *Kawakita v. United States,* 190 F. 2d 506 (9th Cir. 1951). Certiorari was granted and the United States Supreme Court affirmed in *Kawakita v. United States,* 343 U. S. 717 (1952).

Having exhausted every possible avenue for judicial review such as appellant has done in this case, the de-

fendant Kawakita made a motion to modify his sentence of death before the Honorable William C. Mathes, United States District Judge.

In denying this motion the Court stated in *United States v. Kawakita,* 108 F. Supp. 627 (S.D. Cal. 1952) at page 632:

> "Finally it should be noted that the President alone is vested with 'power to grant reprieves and pardons for offenses against the United States . . .' U.S. Const. Art. II, Section 2, cl. 1. 'The benign prerogative of mercy reposed in him cannot be fettered. . . .' in any case. Ex Parte Garland, 1866, 4 Wall. 333, 71 U.S. 333, 380. . . .
>
> "The separate functions of the executive and the judicial departments with respect to punishment for offenses against the United States is fully explained in Ex Parte United States, 1916, 242 U.S. 27, 41-42, 51-52, 37 S. Ct. 72. . . . The Supreme Court there declared that 'the right to relieve from the punishment fixed by law and ascertained according to the methods by it provided, belongs to the executive department.' Ex Parte United States, supra, 242 U.S. at page 42, . . ."

Executive clemency is not just a private act of an individual possessing power to execute same but is part of the Constitutional scheme. It is submitted to the Court that the proper remedy for the appellant is to seek executive clemency from the President of the United States if he feels his sentence should be less than what the judgment fixed.

The District Court was within its right in imposing the forty year sentence. The judgment of the Court denying appellant's motion for a correction of an illegal sentence or in the alternative to vacate the sentence should be affirmed.

VIII.
CONCLUSION.

For the reasons stated, it is respectfully submitted that the Judgment of the Court denying appellant's motion for a correction of an illegal sentence or in the alternative to vacate the sentence should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

MYRON ROSCHKO.

No. 18880

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

GILBERT HERNANDEZ RODRIGUEZ and BEATRICE MARTINEZ DELGADO,

Appellants.

vs.

UNITED STATES OF AMERICA,

Appellee.

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No. 18880

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

GILBERT HERNANDEZ RODRIGUEZ and BEATRICE MARTINEZ DELGADO,

Appellants.

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.
JURISDICTIONAL STATEMENT.

On February 13, 1963, the Federal Grand Jury for the Southern District of California returned an indictment in seven counts charging the appellants, Gilbert Hernandez Rodriguez and Beatrice Martinez Delgado, in the last three counts with violations of the narcotics laws of the United States as proscribed in Title 21, United States Code, Sections 174 and 176(a). [C. T. 2-10.][1] The appellants and their co-defendants were arraigned in the court of the Honorable Thurmond Clarke on February 25, 1963, and all entered pleas of not guilty on March 11, 1963. The case was then transferred to the calendar of the Honorable Jesse W. Curtis, Jr. After the matter was referred to Judge

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[1]C. T. refers to the Clerk's Transcript of Record.

Curtis the other defendants entered pleas of guilty and the further proceedings, excepting sentencing, related to the appellants only.

The filing of a timely Motion to Suppress resulted in a hearing on the motion on April 19, 1963. Based upon the evidence adduced at the hearing, the court denied the motion of the appellants. [C. T. 12.] On April 24, 1963, a jury was empanelled and further proceedings were continued to the following day. [C. T. 13.] The trial of the matter was heard on April 25th and 26th of 1963. [C. T. 14-16]. On the latter date the jury returned a guilty verdict as to both appellants with respect to counts eight and nine; Rodriguez and Delgado were acquitted of the charges contained in count seven. [C. T. 17, 18.]

On May 27, 1963, the date set for sentencing, counsel for the appellants argued a Motion for Judgment of Acquittal Notwithstanding the Verdict and, in the alternative, for a New Trial. The motions were denied by the trial court and the appellants were then both sentenced to the custody of the Attorney General for a period of five years on counts eight and nine, with the further order that the sentences were to run concurrently. [C. T. 17-21.] On the same date a timely Notice of Appeal was filed on behalf of both appellants. [C. T. 22, 23.]

The jurisdiction of the United States District Court is premised on Section 3231 of Title 18, United States Code. The Court of Appeals may entertain this matter under the provisions of Title 28, United States Code, Sections 1291 and 1294.

II.
STATEMENT OF THE CASE.

A. Questions Presented.

The first question presented by the appellants' brief is whether the evidence was properly seized. Secondly, there is presented the question of whether there were sufficient facts adduced at trial to sustain the verdicts.

B. Statement of the Facts.

In viewing the facts of this case, the context within which the law enforcement officers were acting must be kept constantly in mind. These facts indicate that on January 14, 1963, surveilling officers observed a government informant, Daniel Estrada, meet with James Angulo and Manuel Martinez at 910 South Boyle Street in Los Angeles, California. Via a Fargo receiver, the officers overheard the parties engage in a conversation relative to a sale of narcotics. Later in the day, at another location, the law officers saw Manuel Martinez hand James Angulo a small packet of heroin. [R. T. 67, 68.][2] This transaction occasioned count five of the indictment. [C. T. 6.]

Having knowledge that Manuel Martinez was trafficking in narcotics, the officers sought to maintain a surveillance of Martinez in order that further information could be developed as to his pattern of movement, his associates and the location of his cache. [R. T. 40, 53.] From the 14th of January to the date here in question, February 6, 1963, the officers sought to ascertain the whereabouts of Martinez—at no time did they observe him or have any knowledge as to his whereabouts. [R. T. 10, 38, 40 and 50.] In seeking to

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[2]R. T. refers to the Reporter's Transcript of Record.

develop information relative to the location of Manuel Martinez, the officers placed 910 South Boyle Street under sporadic surveillance. [R. T. 8, 23.] This persistence was rewarded on the night of February 6, 1963. [R. T. 5.]

On that evening the investigating officers, Deputies Velasquez and Stoops and Sergeant Cook of the Narcotics Detail, Los Angeles Sheriff's Office, and Agent Watson of the Federal Bureau of Narcotics were pursuing their search for Martinez. Watson and Cook were in one vehicle and drove throughout an area in East Los Angeles in which they felt that Martinez might be found. [R. T. 37.] Their search on that evening included what they believed to be Martinez' residence on Ganahl Street. [R. T. 26, 37.] In the meantime Deputies Velasquez and Stoops had droven their vehicle to a position from which they could observe the area of 910 South Boyle Street. [R. T. 51, 56.] From their vantage point they saw an Union Oil Company gasoline station. Abutting the station property was a fence and on the other side of the fence was a drive which led to the 910 address, the lower floor of a two-story apartment unit, located at the rear of a Spanish restaurant known as "Cooki's." [R. T. 103.] While parked, the officers observed Manuel Martinez drive into the Union Station in a 1962 Monza coupe and park on the parking lot portion of the station; this occurred at approximately 6:15 p.m. They then saw Manuel Martinez and a female, later identified as his wife, leave the car and proceed across the lot to Boyle Street, then down the walkway, adjacent to "Cooki's," leading to the 910 address. [R. T. 104.] Fifteen minutes later, Watson and Cook, having completed a fruit-

less search, joined the surveilling officers who were maintaining an observation of Martinez' car. [R. T. 42.] At that time the officers determined that they should place Manuel Martinez under arrest since he had proved to be such an illusive quarry. [R. T. 40.]

The four officers then walked down the drive to the apartment to the rear of the restaurant. Velasquez knocked on the door and called for "Manuel." A few moments passed and the appellant Rodriguez opened the door. When the door was opened Velasquez presented his Sheriff's identification card, informed Rodriguez that he was a Deputy Sheriff, and requested permission to enter the residence. Rodriguez opened the door and stepped aside; as he did, Velasquez entered the living room and observed Manuel Martinez, his wife and the appellant Delgado to his immediate left at the door to a bedroom. [R. T. 106-108.] Velasquez placed Martinez under arrest and advised him that he was under arrest for violating the federal narcotics laws; Martinez was further informed of his constitutional rights. [R. T. 58, 106.] The other officers made their entry on the heels of Velasquez. Velasquez then inquired of Rodriquez as to who resided in the apartment and Rodriguez replied that his common law wife, the appellant Delgado who is the sister of Manuel Martinez, and their two children lived at the 910 address. [R. T. 112.] Velasquez then informed Rodriguez that the officers had reason to believe that narcotics might be secreted in the house and requested Rodriguez' permission to conduct a search. To this inquiry the appellant Rodriguez stated that "he had nothing to hide: that he had been out of the penitentiary for two years; that he was currently on parole; that

he had kept clean and we could go ahead and search." [R. T. 59, lines 14-17.]

The agents then conducted a search of the apartment. The bedroom to the right, as one faces the living room from the front door, appeared to be a child's room in that there was a single bed, a toy box and a television set. Velasquez conducted a search of this room and stated that he observed a green plastic clothes basket on top of the bed. An examination of the contents of the basket revealed a quantity of laundred clothes. Amongst these clothes, approximately half way down, Deputy Velasquez discovered a rubber contraceptive containing a white powdery substance. The agents conducted a field test of the contents of the contraceptive and determined that the substance contained therein was heroin. [R. T. 114, 117.] Delgado and Rodriguez were then placed under arrest and Velasquez commenced a search of the left bedroom, the one in which Manuel Martinez, his wife and the appellant Delgado were observed by Deputy Velasquez when he entered the apartment. This room appeared to be the master bedroom in that it contained a double bed and closets and dressers with various adult articles of clothing. Further, at the foot of the bed there was a portable television set and a night table. [R. T. 118.] A search revealed $150 in cash in a purse in a closet and currency in the amount of $500 in another purse in the dresser. The drawer to the night stand was opened by Velasquez and within it he discovered seven brown paper-wrapped cigarettes containing a green leafy substance, later ascertained to be marihuana. There was also discovered within the drawer a folded newspaper containing a loose quantity of marihuana. [R. T. 124.]

When the appellants were indicted, they were charged relative to the heroin in count seven and with respect to the marihuana in counts eight and nine. [C. T. 8-10.] At trial they were acquitted of the heroin count and convicted on the marihuana counts. [C. T. 17, 18.]

III.

ARGUMENT.

A. The Motion to Suppress Was Properly Denied.

The record clearly reveals that the peace officers had neither a search nor arrest warrant when they recovered the contraband which resulted in the convictions of the appellants. However, it is the contention of the government that neither type of warrant was required by the officers.

The search may first be validated as incidental to a lawful arrest. As stated by our Supreme Court in *Agnello v. United States* (1925), 269 U. S. 20, 30, 46 S. Ct. 4, 70 L. Ed. 145;

> "The right without a search warrant contemporaneously to search persons lawfully arrested while committing crime and to search the place where the arrest is made in order to find and seize things connected with the crime and its fruits or as the means by which it was committed, as well as weapons and other things to effect an escape from custody, is not to be doubted . . ." (Citations omitted.)

This rule of law has more recently been voiced in *United States v. Rabinowitz* (1950), 339 U. S. 56, 70 S. Ct. 430, 94 L. Ed. 653; *Harris v. United States* (1946), 331 U. S. 145, 67 S. Ct. 1098, 91 L. Ed.

1399; *Burks v. United States* (9th Cir. 1961), 287 F. 2d 117 and *Leahy v. United States* (9th Cir. 1959), 272 F. 2d 487, cert. granted 363 U. S. 810, 80 S. Ct. 1246, 4 L. Ed. 2d 1152; cert. dismissed 364 U. S. 945 81 S. Ct. 465, 5 L Ed. 2d 459.

The question then arises as to whether there was a lawful arrest. The fact that Manuel Martinez had violated the federal narcotic laws on January 14, 1963, is not contested by the appellants and, if it were, the record does indicate that Deputy Sheriff Valesquez had overheard and seen Manuel Martinez engage in a sale of heroin on that day in January. [R. T. 67, 68.] Based upon this and the fact that Federal Bureau of Narcotics Agent Harry Watson took part in the investigation and arrest of Martinez, the United States asserts that the arrest was legal as provided in Title 26, United States Code, Section 7607, which states in part:

> ". . . Agents of the Bureau of Narcotics . . . may
>
> "(2) make arrests without warrant for violations of any law of the United States relating to narcotic drugs . . . or marihuana . . . where such person has reasonable grounds to believe that the person to be arrested has committed . . . such violation."

The legality of an arrest without a warrant under the aforementioned statute has been considered by this Circuit and approved in the recent cases of *Teasley v. United States* (9th Cir. 1961), 292 F. 2d 460 and *Polk v. United States* (9th Cir. 1961), 291 F. 2d 230. See also *Fernandez v. United States* (9th Cir. 1963), 321 F. 2d 283 and *Busby v. United States* (9th Cir. 1961), 296 F. 2d 328, cert. den. 369 U. S. 843, 82 S. Ct. 874, 7 L. Ed. 2d 847.

Completely independent of the above basis of admissibility is the consent of the appellant Rodriguez. This Court has discussed consent as validating a warrantless search and has said:

> ". . . It is still true that a search to which voluntary consent is given is not an unlawful search and evidence thereby obtained is admissible . . ." *Frye v. United States* (9th Cir. 1963), 315 F. 2d 491, 494.

For other pronouncements upon this subject see *United States v. Page* (9th Cir. 1962), 302 F. 2d 81 and *Poetter v. United States* (9th Cir. 1929), 31 F. 2d 438.

Before meeting the appellants' arguments that the arrest of Manuel Martinez was merely a ruse to conduct an exploratory search of the residence and that there was a lack of consent; it is well to keep in mind the admonition of the United States Supreme Court which said in *Harris, supra,* at page 155:

> "The dangers to fundamental personal rights and interests resulting from excesses of law-enforcement officials committed during the course of criminal investigations are not illusory. This court has always been alert to protect against such abuse. *But we should not permit our knowledge that abuses sometimes occur to give similar coloration to procedures which are basically reasonable . . .*". (Emphasis added.)

Considering the facts indicating that the arrest was not incident to the search, it is apparent that following the narcotics violation by Manuel Martinez on January 14, 1963, the narcotics officers made a bona fide attempt to locate Martinez again as they wished to in-

crease their knowledge of his activities. Naturally, one of the places that they surveilled was the apartment at 910 South Boyle Street, as this was the place that Martinez was first contacted on January 14, the date upon which he sold the heroin. On the evening of February 6, 1963, when Martinez was observed to park his car and walk up the drive towards the appellants' apartment, the officers still were intent on surveillance but when they were joined by their fellow officers and consulted with them it was determined that since Martinez had proven so elusive, it would be better to place him under arrest rather than risk losing him again.

In determining whether the appellant Rodriguez authorized the search, it is helpful to turn to the recent Ninth Circuit decision in *Page v. United States, supra.* The Court faced with a similar consent question, and a perhaps more extreme fact situation, stated at pages 82, 83:

> "The question presented is, does the evidence, viewed most favorably to the government, require a decision, as a matter of law, that the search was illegal and therefore a violation of Page's rights under the Fourth Amendment to the United States Constitution? . . . The question is one of fact, for the trial court to resolve."

In considering this question of fact Judge Duniway, writing for the Court, went on to say at page 84:

> "It is still true, however, that it is the trial judge who hears the witnesses and who must pass upon their credibility. We sometimes tend to forget that the testimony of a witness, presented to us in a cold record, may make an impression upon us directly contrary to that which we would have received had

> we seen and heard the witnesses. It ought not to be assumed that United States District Judges are any less determined to preserve constitutional rights than we are . . ."

With these guide lines in mind we turn to the facts indicating consent. Deputy Velasquez testified that when he knocked on the door at 910 South Boyle Street, he whistled and called out for "Manuel" and in response to this the door was opened by the appellant Rodriguez. Valesquez, dressed in civilian clothes, then identified himself by displaying a deputy sheriff's identification card. At the same time Velasquez said that he was from the Sheriff's Office and asked "[M]ay we come in?" [R. T. 58, line 11.] Rodriguez then stepped back and opened the door. Martinez was immediately placed under arrest and, in the presence of the appellants, advised of his constitutional right to remain silent and further told that anything he said might be used against him in a court of law. Velasquez then turned to Rodriguez, inquired who resided in the apartment and, having been informed by Rodriguez that he and his family occupied the apartment, Velasquez reiterated that Martinez was under arrest for violating federal narcotics laws and stated that the officers had reason to believe that narcotics might be cached in the house [R. T. 58, 59.] Velasquez asksd Rodriguez if they could search the house and Velasquez testified thusly:

> ". . . He stated to me that he had nothing to hide; that he had been out of the penitentiary for two years; that he was currently on parole; that he had kept clean, and we could go ahead and search." [R. T. 59, lines 14-17.]

Both officers Watson and Velasquez stated that at no time did they or their fellow officers draw their weapons and the only time that their side arms could have been exposed was when they removed their jackets during the course of their search. [R. T. 7, 8, 45, 60.] It is interesting that Rodriguez contradicted this only in part. He stated that the officers did not exhibit their pistols upon entering the room; he further testified that the only time the weapon was drawn was when he was placed under arrest, which was some time after he gave his consent. [R. T. 71, 75, 81.] Further, the testimony of Velasquez was that at no time did he or any of his group threaten or intimidate Rodriguez. [R. T. 62.]

In light of the above, it is the government's position that a willing, uncoerced consent was shown at the hearing on the Motion to Suppress. As stated before these facts are closely analogous to the *Page* case and certainly not as extreme as those existent in *McDonald v. United States* (10th Cir. 1962), 307 F. 2d 272 and *United States v. Sferas* (7th Cir. 1954), 210 F. 2d 69, cert. denied 347 U. S. 935, 74 S. Ct. 630, 98 L. Ed. 1068, where consent was found by the trial and reviewing courts.

That such a consent was binding upon the appellant Delgado, who was present when it was given and said nothing, is determined by the *Sferas* case, *supra,* and in this Circuit by *Stein v. United States* (9th Cir. 1948), 166 F. 2d 851, cert. denied 334 U. S. 844, 68 S. Ct. 1512, 92 L. Ed. 1768.

Lest there be any doubt that the trial court employed the same reasoning as above, the United States would turn to the reporter's transcript at pages 84 and 85

where the court stated that there was sufficient cause for the arrest and therefore a legal arrest and then added that he also found that there had been a voluntary consent to the search.

B. There Was Sufficient Evidence to Sustain the Verdict.

The appellants urge that there was insufficient evidence to sustain the jury's verdict in that possession was not proven. The argument progresses that if possession is not proven then the government's case must fall as it is only through the proof of possession that the plaintiff may gain the benefit of the presumption that the contraband was imported into the United States contrary to law; a requisite jurisdictional element.

Mindful that in appraising the sufficiency of the evidence this Court has stated the test to be:

> "[T]he evidence viewed most favorably to the government with all credibility conflicts resolved in the government's favor . . ."
>
> *Blossom Wolf Palmer and Samuel Palmer v. United States* (9th Cir. May 29, 1963), No. 18,225.

And mindful that:

> ". . . so long as the evidence establishes the requisite power in the defendant to control the narcotic drugs, it is immaterial that they may not be within the defendant's immediate physical custody, or, indeed, that they may be physically in the hands of third persons—'possession' as used in this statute includes both actual and constructive possession. The power to control an object may be shared with others, and hence 'possession' . . .

need not be exclusive, but may be joint. Moreover, like other facts relevant to guilt, 'possession', actual or constructive, may be proven by circumstantial evidence."

Hernandez v. United States (9th Cir. 1962), 300 F. 2d 114, 117.

We turn toward analysis of the appellants' objection. The Ninth Circuit decision of *Evans v. United States* (9th Cir. 1958), 257 F. 2d 121, cert. denied 358 U. S. 866, 79 S. Ct. 98, 3 L. Ed. 2d 99, rehearing denied 358 U. S. 901, 79 S. Ct. 221, 3 L. Ed. 2d 150, sets forth the law applicable to this case when at page 128 the court states:

"Proof that one had exclusive control and dominion over property on or in which contraband narcotics were found, is a potent circumstance tending to prove knowledge of the presence of such narcotics, and control thereof . . ."

"Where one has exclusive possession of the home or apartment in which narcotics are found, it may be inferred, even in the absence of other incriminating evidence that such person knew of the presence of the narcotics and had control of them." (Emphasis added.)

A further statement is found in *Rodella v. United States* (9th Cir. 1960), 286 F. 2d 306, 312, cert. denied 365 U. S. 889, 81 S. Ct. 1042, 6 L. Ed. 2d 199.

"There is no question in our mind but that a person should be held to be in possession of an object if that object, even though not in his manual or personal physical possession, is, for example, in his home, behind locked doors, and within a safe

> therein, to which home and safe the person has access and makes no explanation as to how or why he has such control . . ."

These holdings and the case of *Eason v. United States* (9th Cir. 1960), 281 F. 2d 818, where the Court of Appeals sustained a conviction in a fact situation closely similar to the one at hand, indicate that exclusive possession of the premises is determinative.

A consideration of the cases relied upon by the appellants reveals a lack of exclusive possession. In the *Evans* case, *supra,* the record indicated that the appellant was arrested at the home of a lady friend. A search incident to the arrest revealed a quantity of marihuana under the carpet of the top step of the stairs inside the dwelling. Further, the evidence indicated that the woman paid the rent and was the main customer for the gas and electric service; the appellant visited the residence infrequently; the appellant maintained no clothing there and had only been at the residence five minutes at the time of his arrest which led to the search. Based upon this, the Court reversed.

The next case relied upon is *People v. Antista,* 129 Cal. App. 2d 47, 276 P. 2d 177. In that case the California state court said at page 51:

> "Exclusive control and dominion over a car found to contain a narcotic is, of course, a potent circumstance in the question of possession of its contents."

But the appellate court went on to state that the appellant's friends had ready access to his home as he left the key under the door mat; a convicted narcotics user had been residing at the house for ten days pre-

ceeding the search in question and the narcotics had been secreted in a part of the house not frequented by the appellant. The Court held that the requisite possession had not been proven.

In *Arellanes v. United States* (9th Cir. 1962), 302 F. 2d 603, cert. denied 371 U. S. 930, 83 S. Ct. 294, 9 L. Ed. 2d 238, the Court of Appeals for the Ninth Circuit reversed the conviction of the appellant. The Court in finding that there was not an exclusive possession said at page 606:

> ". . . Proof of exclusive control or dominion over property on which contraband narcotics are found is a strong circumstance tending to prove knowledge of the presence of such narcotics and control thereof . . . On the other hand, mere proximity to the drug, mere presence on the property where it is located, or mere association, without more, with the person who does control the drug or the property on which it is found, is insufficient to support a finding of possession. Applying these criteria to the instant case, we find that Mrs. Arellanes connection with the drugs is not shown to go beyond the enumerated insufficiencies."

The case at hand stands in contrast to those cited by the appellants. With respect to the exclusive occupation of the premises, there is the uncontradicted testimony of Rodriguez that he lived at 910 Boyle Street with his wife, appellant Delgado, and their two children. [R. T. 112.] There was no testimony that Manuel Martinez had a ready access to the apartment; as a matter of fact, Officer Velasquez stated that at no time was he told Manuel Martinez frequented the apartment

during his noon hour or that Manuel Martinez kept a portion of his wardrobe in a closet within the apartment and had resided with the Rodriguezes prior to his marriage. [R. T. 145, 146.]

Viewed in the light most favorable to the appellee, the circumstances indicative of appellants' involvement are that there was an apparently innocuous social call by Manuel Martinez and his wife on the evening of February 6, 1963. There was absolutely no indication that Manuel Martinez was conscious of the surveillance being conducted by the officers which might have occasioned him seeking to conceal the narcotics discovered on the premises. At the time of the arrest, there were four adults and a year-old infant in the house; it is unlikely that Manuel Martinez would choose this time to conceal narcotics in two different rooms. Further, it is most unusual for a party to conceal narcotics in an unsuspecting relative's house; and if one is going to do such a thing, it is certainly not likely that he would choose the laundry hamper in the child's room and the night stand in the parents' room for his hiding place. Additionally, the evidence upon which the convictions were based, consisted of the testimony of Officer Velasquez that he discovered $650 in purses in the master bedroom. When he questioned the appellant Delgado relative to the cash, she stated that she had saved this money from her unemployment and her husband's odd jobs. Considering the circumstances of the case it was within the jury's prerogative to determine that these moneys were the result of narcotic sales. Also, the marihuana convictions rested upon the discovery of seven marihuana cigarettes and a quantity of loose marihuana wrapped in a newspaper, all of

which were contained in the night table at the foot of appellants' bed. The location and state of the marihuana circumstantially indicate that the occupants of the room were making their own cigarettes.

IV.
CONCLUSION.

On the facts in this record and the law applicable thereto, for the reasons stated herein, the judgment entered against appellants Gilbert Hernandez Rodriguez and Patrice Martinez Delgado are free from error and should be affirmed.

Respectfully submitted,

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

William D. Keller

No. 18883

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

HALLCRAFT HOMES, INC.,

Appellant,

vs.

COMMISSIONER OF INTERNAL REVENUE,

Appellee.

Appeal From the Tax Court of the United States.

APPELLANT'S REPLY BRIEF.

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No. 18883

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

HALLCRAFT HOMES, INC.,

~~*Petitioner and*~~ *Appellant,*

vs.

COMMISSIONER OF INTERNAL REVENUE,

~~*Respondent and*~~ *Appellee.*

Appeal From the Tax Court of the United States.

APPELLANT'S REPLY BRIEF.

I.

Comments on Brief for the Respondent and Delineation of the Issue on Appeal.

The Brief for the Respondent tends to prolong and dramatize the dilemma of the Tax Court. Both the Tax Court and the Respondent seem to feel, with some certainty, that the Petitioner's position is not right; but when they attempt to clearly state their own position or point out wherein Petitioner's position may be wrong, all certainty vanishes, and they fall into alternative attitudes and random quotations, taken out of context, which don't tend to present to this Court a clear-cut issue of law. In their entirety the statements,

authorities and arguments of the Tax Court and the Respondent on Appeal represent an expression of pious indignation and the exasperated conclusion that "well, gosh, everybody knows they can't do that".

Petitioner does not hold them up to scorn or blame. There is respectable authority for such loose concepts as the "assignment of income doctrine", and when they cite cases which talk about "capital standing in the place of income which had previously escaped taxation," one might superficially conclude that this *is* one of those cases and, indeed, Petitioner *cannot* convert ordinary income to capital gain merely by accepting a lump sum payment in lieu of that ordinary income which the Petitioner stood to receive over a period of years. This thinking, however, is confused and is merely the statement of a common belief, or the acceptance of a loose collection of rules of thumb, without any real insight or understanding. It is respectfully submitted that, to go along with the cursory conclusion of the Tax Court and Respondent that Petitioner's position is wrong simply because it happens to appear wrong, tends to further muddy up a very critical area of our tax law. This tendency should *not* be extended.

II.

Statement of the Precise Issue and a Plea for Clarification of a Basic and Critical Statutory Provision.

Petitioner does not wish to be repetitious or belabor a point, but it must re-emphasize the uncontested hypothesis which brings into focus the issue on Appeal.

That hypothesis, which is stipulated, agreed to, conceded and accepted, may be stated as follows:

(1) Petitioner was the owner of a valuable property right, which in essence was the contractual expectation of payments over a period of time, fixed in total amount, but *uncertain* as to the amount or frequency of installments and the ultimate collectibility thereof. [Tr. 15—Stip. 10.]

(2) The aforesaid valuable property right had been held by Petitioner at the time of the sale for in excess of six (6) months. [Tr. 29—T. C. Op.]

(3) The aforesaid valuable property right was sold by Petitioner for cash as a result of arm's length negotiations with a third party stranger, which negotiations were initiated by the buyer. It is accepted that the price was reasonable and fair, that there were good business reasons for the sale, and that any tax avoidance motives or intentions of securing a tax benefit were wholly lacking. [Tr. 29—T. C. Op.]

(4) The basic statute involved is §1221 of the Internal Revenue Code of 1954, which bears the title "Capital Asset Defined", and which says that "For purposes of this subtitle, the term 'capital asset' means property held by the taxpayer (whether or not connected with his trade or business), but does not include—* * *, etc., etc." The said statute lists the excluded exceptions, but *no* excluded exception could be strained to cover the valuable property right here sold. [Tr. 29—T. C. Op.]

(5) A second basic statutory provision involved is §1222 of the Internal Revenue Code of 1954 titled "Other Terms Relating to Capital Gains and Losses" and, in part, this section provides: "Long-term capital gain.—The term 'long capital gain' means gain from the

sale or exchange of a capital asset held for more than 6 months, * * *". (Resp. Br.—App. p. 3.)

(6) The Respondent, Commissioner of Internal Revenue, has promulgated his Regulations wherein he attempts to clarify and state his position with respect to the statutory law, and at §1.1221-1 under the heading "Meaning of Terms", the Commissioner has published his position as follows: "The term 'capital assets' includes all classes of property not *specifically* excluded by Section 1221. * * *" (Emphasis added.) (Resp. Br.—App. p. 3.)

The above numbered facts and statutory references are *not* in dispute, and they together form the hypothesis for the case on Appeal. Nothing could be stated with more clarity!

It is at this point, however, that the fuzzy thinking begins and the confused rationalization starts. The Respondent would impose on this high Court by asking the Court, despite the law and facts which are not in dispute, to join in a speculative search through an assortment of quotations and theories, with the wistful purpose of settling on some justification for an erroneous conclusion of the Tax Court.

Petitioner acknowledges that the authorities cited by Respondent in his Brief exist, and Petitioner is in agreement that the dictum and statements of various courts, including this Court, are sensible conclusions in the light of the specialized facts and obvious motivations which were before the courts in those cases. However, to ask this Court to indulge in a combing of authorities to find support for a sincere but superficial supposition is an affront.

To again paraphrase the Respondent, he is saying in his Brief,

> "The Tax Court's Opinion *must* be right because it seems right. The Petitioner's position *must* be wrong because it seemingly leads to a result which other courts in other cases (*and for other reasons)* have rejected."

The Respondent, with surface logic but without any depth of understanding, parrots the Tax Court's erroneous opinion and reiterates the Court's conclusion, which may be stated as follows: An unwarranted benefit and an obvious loophole would exist if sophisticated taxpayers were permitted to convert the unconditional right to receive future ordinary income into capital gain by the mere negotiation of an ostensible sale of that right, substituting a lump sum payment for future payments. This Court said just that in *Holt v. Commissioner,* 303 F. 2d 687, 691 (C. A. 9). The Respondent and the Tax Court also rely on *Merchant's National Bank v. Commissioner,* 199 F. 2d 657, 659 (C. A. 5) wherein the Court said that recoupment of amounts originally deducted from ordinary income stands in the place of the income which escaped taxation in the year of deduction.

These cases, and a host of similar cases, probably represent good law; but it is respectfully submitted that they all relate to *specialized factual situations,* and they are *corrective decisions* designed to frustrate and discourage the inventive genius of tax-motivated sophisticates who are perpetually intrigued with exploitation of the capital gain. The courts in those cases assumed a role which should not be the responsibility of our Appellate Courts. The courts, faced with a pitifully

inadequate statute on the subject of capital assets and capital gains, felt compelled to put teeth into a law, which has no teeth, by endeavoring to prevent the injustice and greed *encouraged* by Congress and the Respondent himself (Commissioner of Internal Revenue), through their own failure to provide the courts and taxpayers with a workable law and regulations on this *very* critical subject.

An extension *ad infinitum* of the principles set down in these loophole plugging cases merely tends to place an increasing burden on the Appellate Courts and becloud and render uncertain one of the most important areas of our tax law. Why should it be so difficult to define what a capital asset is *really* intended to be? Must not the Respondent himself shoulder a great deal of the blame for these constantly reoccurring cases and the maintaining of a challenge and temptation for the inventive genius of sophisticated taxpayers and their advisors? The Respondent, when he promulgated his own Regulations (§1.1221-1 Regs. under IRC 1954) for the sole purpose of stating *his* position and *his* interpretation of the meaning of Section 1221 of the Internal Revenue Code of 1954, saw fit to state only that "The term 'capital assets' includes all classes of property not specifically excluded by Section 1221. * * *". That's not much help is it?

How can the Respondent now complain of a result, absolutely compelled and required under the stipulated facts and the only statutory law on the subject, and founded on absolute good faith and freedom from any tax avoidance motives, in view of his own terse and indifferent declaration.

"Rules of Thumb" Invoked by Respondent Which Are Misleading, Inapplicable or False.

(A) The Respondent argues that since Petitioner reported some periodic payments under the water contracts, before they were sold, as ordinary income, the valuable property rights owned by Petitioner must partake of the nature of ordinary income. Why? Where is that spelled out in the law? A copyright or a royalty is a "valuable property right" which produces ordinary income, and yet it is generally accepted as a capital asset, and a capital gain results when it is sold. What is fatally inconsistent or offensive about Petitioner's position on this point? By reporting a few sporadic payments as ordinary income, Petitioner did not make an irrevocable election or a conclusive admission with respect to the nature of the underlying asset. It must be remembered that the right to receive a percentage of the revenue from water sales was dependent on the performance of others, and there was *no* expected uniformity of payments or guarantee of a specific recovery.

(B) The Respondent points out that Petitioner was permitted (as a result of *Albert Gersten,* 28 T. C. 756 (1957) and Respondent's acquiescence thereto) to deduct, on the theory of immediate amortization of its entire capital outlay, all of the cost of the valuable property rights which it sold. Now says the Respondent, having recovered its capital or cost, Petitioner should not be permitted to sell these valuable property rights as a capital asset having a zero basis. Why not? What is offensive about this result under these circumstances? Is this result not similar to the ultimate sale of any other fully amortized or depreciated capital

asset? In such a case, the taxpayer has always recovered his capital; and when he sells such a capital asset, the transaction is uniformly treated as the sale of a capital asset with a zero basis, and a capital gain is the result.

(C) The Respondent, in his Brief, also makes the comment that these water contracts were not acquired for investment purposes. (Resp. Br. p. 21.) Where is it suggested in the law or regulations that a capital asset *must* be acquired for investment purposes? A person's home is certainly a capital asset, yet few of us acquire it for "investment purposes". This is another attempt by Respondent to drag in and superimpose rules of thumb and theories, taken out of context and having no materiality or conclusive effect when applied to the law and facts here involved.

It is respectfully submitted that if the Respondent is beset by vague and gnawing anxieties about the inescapable conclusion in this case, then he should be encouraged to elaborate on his own Regulations, and the courts should join in encouraging Congress to give us a workable law on this important subject. The courts have enough to do without trying and retrying "capital gain cases" and thereby adding to inherent ambiguity and stimulating a cat-and-mouse game with resourceful taxpayers and their advisors.

The Petitioner, in the best of good faith, complied with all of the existing statutory law and the Commissioner's own Regulations in a straightforward arm's length transaction. This transaction must be accorded the result which those mandates require. The Tax Court's rationalization and the Respondent's groping theories must be rejected.

III.

Answer to Respondent's Alternative Suggestion That the Water Contracts Were Assets in Which Petitioner Dealt in the Normal Course of Its Business.

The alternative argument set forth by Respondent in his Brief, and also alluded to by the Tax Court in its Opinion [Resp. Br. p. 19—Tr. 34—T. C. Op.], that the water contracts were "acquired by Petitioner in the normal course of its everyday business activity" and should therefore be treated like the securities of an investment broker or the real properties of a real estate broker, is without merit. Naturally, capital gain treatment is not accorded to people who are regular dealers in a certain type of assets, even though those assets might be capital assets in the hands of others. When the stockbroker deals in securities, he is in the same position as the grocer selling canned goods off the shelves. This rule is too well settled to require the citation of authorities. Respondent in his Brief cites the case of *Corn Products Co. v. Commissioner,* 350 U. S. 46. The distinction between our case and the well established rule stated above, and also the *Corn Products* case, is that this Petitioner did *not* repeatedly or continually deal in these water contracts. They were not "an integral part" of Petitioner's business or directly related to Petitioner's business. Petitioner had never sold any such contracts before the sale in question. [Tr. Supp. 64.] The valuable property rights represented in these water contracts were a most casual by-product of Petitioner's business, which is the business of improving residential real property for sale. Acquisition of the water contracts was a necessary and onerous invest-

ment which Petitioner was required to make. To suggest that Petitioner dealt in such contracts is an absurdity. The water contracts were a residual property of residual value, but without further usefulness or purpose when Petitioner had completed its homes and they were ready for sale to occupants. The water contracts at that time might be likened to any other residual property, such as specialized rolling equipment which, let us say, had been used in Petitioner's trade or business and was fully amortized or depreciated. When Petitioner undertook to dispose of by sale these residual properties, whether they be the water contracts or the specialized rolling equipment, the sale of such items is the sale of capital assets with a zero basis. Petitioner in its Opening Brief makes reference to §1231 of the Internal Revenue Code of 1954 and comments on this analogy. (Pet. Op. Br. pp. 13-15.)

In conclusion Petitioner again respectfully submits that the *only* reasonable inference that can be drawn, from the undisputed facts of record and the existing law on the subject, is that it is entitled to long-term capital gain treatment on the sale of a capital asset as reported by Petitioner on its return for its fiscal year ended April 30, 1958, and that the Tax Court's Opinion to the contrary is erroneous and must be reversed.

Dated: July ...., 1964.

Respectfully submitted,

F. Edward Little,
J. Keith McGregor,
Counsel for Petitioner and Appellant.

Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

F. Edward Little

Nos. 18887 and 18888

IN THE

United States Court of Appeals

For the Ninth Circuit

W. WILLARD WIRTZ, Secretary of Labor, United States Department of Labor,

Appellant,

vs.

IDAHO SHEET METAL WORKS, INC., A Corporation,

Appellee

Appeal from the District Court of the United States For the District of Idaho

BRIEF FOR APPELLEE

ELI A. WESTON, *Attorney*
and
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Idaho Sheet Metal Works, Inc.

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IN THE

United States Court of Appeals

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Appeal from the District Court of the United States For the District of Idaho

BRIEF FOR APPELLEE

STATEMENT OF JURISDICTION

The appellant has correctly stated the facts with reference to jurisdiction, the above cases coming under Sections 16(c) and 17 of the Fair Labor Standards Act with particular reference to Sections 6 and 7 covering minimum wages and overtime. The two actions were consolidated for trial (A 30)[1] at

[1]Page numbers preceded by "A" refer to Volume 1 of the record on appeal in Cause No. 18887; page numbers preceded by "B" refer to the record on appeal in Cause No. 18888; page numbers preceded by "T" refered to the transcript of proceedings at the trial of these cases, which has been designated as Volume 2 of the record of Cause No. 18887.

the conclusion of which the Court held that the defendant's employees were not within the coverage of the Act and further that the defendant's enterprise was an exempt establishment. (A 58-A 61; B 24-B 27).

STATEMENT OF THE CASE

Th defendant in this case operates a sheet metal shop in a small agricultural area, Burley, Idaho. The shop was established in 1957 and was established for the purpose of serving the local community's needs in the custom fabrication and making of sheet metal or tin items to be sold or installed for the general public including merchants, farmers, individuals, and in some instances, manufacturers. The products were all made and sold at a retail price computed by adding a profit to the cost of labor and materials. The shop was and is an enlarged projection of the oldtime tin shop and was described by the manufacturing salesmen in the industry as the retail outlet.

Some time after the shop was established, manufacturers of frozen food products located in the community and intermittently at irregular intervals used the facilities of the defendant for the installation of items such as air ducts, air conditioning equipment, storage tanks, elevator buckets, endless conveyor belts, conductors, and chutes.

The shop and building is equipped with a counter, work benches, and racks for the display and storage of products such as sheet metal, tubing, tin and other objects.

Section 3 of the Act provides that "... an employee shall be deemed to have been engaged in the production of goods if the employee was employed in producing, manufacturing, mining, handling, transporting, or in any other manner working on such goods, *or in any closely related process or occupation directly essential to the production thereof, in any state.*" (emphasis added) The above is the 1949 amendment to the original Act. The original Act did not contain the words "or in any closely related process or occupation directly essential," but contained the expression "any process or occupation necessary to the production thereof." Congress by the amendment intended to eliminate the confusion and difficulties where coverage had previously been held in occupations that were not closely related to or directly essential to the production of goods for commerce.

The instant cases pose two questions:

1. Are the employees working for an independent employer such as the defendant so closely related and directly essential to the production of goods for commerce as to be engaged in the production of goods for commerce?

2. Is the defendant's shop a retail establishment and entitled to the exemption as such under Section 13(a) of the Act?

SECTION 13(a)

Section 13(a) of the Act provides an exemption for the defendant regardless of Section 3 if the evidence establishes that the employees in question were

employed in an establishment meeting the following requirements:

1. 50% of the annual dollar volume of sales are made within the state.

2. 75% of the annual dollar volume of sales or services or of both is not for resale.

3. It is recognized as a retail sales or service establishment in the particular industry.

4. 85% of such establishment's annual dollar volume of sales of goods so made or processed is made within the state in which the establishment is located. (Section 13(a)(4)).

> "It is well settled that the findings of fact of a lower court will not as a general rule be disturbed by the appellate court unless they are clearly contrary to, or are plainly, flagrantly, or indisputably against, the evidence, or are so clearly contrary to the preponderance of the evidence as to produce in the minds of the reviewers a conviction amounting to a reasonable certainty that they are wrong."
>
> 3 Am. Jur. 458 ¶ 896 (citations omitted)

In addition, it is also the general rule that in the review of a judgment of the trial court based upon findings made by that court, all reasonable presumptions are to be indulged in favor of the correctness of the findings. *Martin v. Marks*, 97 U.S. 345, 24 L. Ed. 940; *Hodges v. Meriwether*, 55 F. 2d 29 (CCA 8th, 86 ALR 52). Testimony in the record which tends to support the findings must be accepted as true and

must be viewed most favorably to the conclusions or findings of the court below. *Tri-State Transit Company v. Miller*, 188 Ark. 149, 65 SW 2d 9, 90 ALR 1389; *Shean v. Cook*, 180 Cal. 92, 179 Pac. 185, 3 ALR 1042. Based upon these cases and authorities, if there is any evidence or testimony in the record tending to support the findings of fact of the trial court, the findings may not be disturbed.

Therefore, the issues to be determined on this appeal are whether or not there are facts in the record to support the following findings of fact:

1. The defendant's store is isolated and local in character.

2. The defendant's services rendered or goods furnished were intermittent and irregular and were not directly essential to the regular operation of the interstate producer.

3. The defendant's prices for services and products were not for resale, and were sold at retail.

4. The defendant's establishment is recognized as a retail establishment within the industry.

5. 85% or more of the defendant's products or services were rendered or sold within the state.

ARGUMENT

The pre-trial agreement provided that all tests applying to retail establishments had been met except the tests of 75% at retail and whether the store

was recognized as a retail sales or service establishment within the industry and whether 85% of the establishment's annual dollar volume of sales or goods are made within the state in which the establishment is located. There is no question with reference to compliance with this last provision, and the issue was not raised in the trial.

Throughout its entire brief, we find the Government relying on the *Roland Electrical Company* case, decided in the early part of 1946 and not covered by the 1949 amendments. There is a substantial difference between the cases referred to by the Government and the more recent cases which will be referred to herein and which were decided after the 1949 amendments. Before 1949, the law loosely suggested that any employee who was in any way connected with or necessary to the production of goods for commerce was covered. Since the 1949 amendments, the Government has struggled to retain the old rule and is reluctant to interpret the 1949 amendments as intended by Congress. The amendments specifically provide, and recent cases hold, that the employee in question must not only engage in work essential to production but it must also be closely related to production of goods *in* commerce.

Before 1949, the cases drew little or no distinction between the employer who was engaged in serving the general public and the employer who was established for the precise and exact purpose of servicing and supplying the employer who was engaged in interstate commerce.

The cases before 1949 drew little or no distinction between the employer who serviced or sold goods to an employer intermittently or at unpredictable intervals as compared to the employer who was required to service and sell at regular times and without interruption of service.

Finally, the cases before 1949 drew very little, if any distinction between the employer whose employees produced goods *in* commerce as compared to those who might be termed as producing goods *for* commerce.

The *Roland Electrical* case, decided before 1949, involves services and supplies by an independent employer (electrical motors and other electrical equipment) which were an essential part of the equipment producing goods in interstate commerce; and the services were necessary daily or regularly to carry on the work of the interestate commerce producing employer. Every mechanic of the Roland Electrical Company worked in practically every work week either in the repairing of the motors and generators or on the reconstruction of used motors sold to the company. The facts also show that the sales and services had to be immediately available at all times. The Roland Electrical Company was not established to serve a local demand and had no history or background as a retail establishment serving a local need. An examination of the facts in the *Roland Electrical Company* case shows they are inapplicable to the case at hand. While the *Roland* case has been referred to in decisions since 1949, it has been in

connection with facts other than those apparent in the present case.

The Government has referred to other cases, some decided before 1949 and some afterward; but it is significant to point out that all the cases show either:

1. That the company involved was furnishing materials that actually went *into* the product produced for commerce, or

2. That the company involved furnished a service at regular and stated intervals and that the service or materials were necessary to keep the company in operation, or

3. That the company involved was not a local establishment established to serve the general public but was established for the specific purpose of selling or servicing the needs of the company producing for commerce.

For example, see *General Electric Co. v Porter*, 208 F. 2d 805 (CA-9) (1953). In this case a facility was established for the express purpose of providing meals at a government installation.

In the case of *Chambers Construction Co. v. Mitchell*, 233 F. 2d 717 (CA-8), the principal question involved was whether the construction was new or old.

In *Reynolds v. Salt River Valley Users' Ass'n*, 143 F. 2d 863 (CA-9), decided before 1949, the employees in question were employed in the single and necessary occupation of pumping water to irrigate land producing goods for commerce.

In *Mitchell v. Anderson*, 235 F. 2d 638 (CA-9), we

find the defendant operating a mess hall under an agreement in a small isolated California town for the express purpose of serving the interstate producer meals for its employees.

For some reason, known to the Government only, they have failed to bring us up to date and have failed to comment on what we consider the latest pronouncements of the Supreme Court on this important question.

The facts in the instant cases show, and the Court by its findings held:

1. That the defendant company was established as a local concern for the express purpose of serving the general public in and around the Burley area including local businesses, farmers and other customers, (T. pp 59, 64, 74).

2. That although the dollar volume of sales to interstate producers is temporarily larger, the total number of customers and sales and services to the general public grossly exceeds those to interstate producers. (Tr. pp 78, 79, 65).

3. That the services rendered to the interstate producers are intermittent, changeable, irregular, and for the most part, rendered during the time the companies are not producing or operating and are in the so-called "down period" (about three months per year). (T. pp. 78, 81-83)

4. That none of the goods sold by the defendant move in interstate commerce. (T. p 83)

5. That the services rendered are for the most part concerned with the smaller items of equipment in the plants of the interstate producers, such as guards for electrical motors, ventilators, tin and steel repair work and in some instances, repairing of elevator belts and equipment, and that any major installations or prefabrications are manufactured in Boise and not by the defendant company. (T. pp. 55, 56)

6. That the interstate producing companies have facilities for, and could if they wished, make the repairs and furnish the services furnished by the defendant company. The interstate producers prefer to patronize local establishments. (T. p. 84)

From an examination of these facts, it would appear that the cases referred to in the Government's brief do not meet the issue. The exhaustive analysis and carefully prepared decision written by Justice Frankfurter in the case of *Mitchell v. H. P. Zachry Co.*, 362 U.S. 310, shows the correct interpretation and intent of the 1949 amendments.

In the *Zachry* case, the employees in question were employed by an independent employer constructing a dam to increase the reservoir capacity to create an expanded reservoir for the district. The water impounded by the district was supplied partially to consumers locally within the State of Texas, including a city. Approximately 40% to 50% of all the water consumed from the system is accounted for by industrial or interestate users, and it is agreed the water is essential to these operations.

In the *Zachry* case, as in the instant case, the facility was constructed to serve a local purpose, but at the same time it furnished water to firms that were engaged in production of goods for commerce. Justice Frankfurter in deciding the case ruled that even though the water was "directly essential" to the production of goods for commerce, the employer's operation was not "closely related" as it had the attributes of a local establishment and was therefore not directly essential to the production of goods for commerce.

The evidence in the case before this Court shows that the defendant establishment has a background and history of a local establishment inaugurated for the purpose of serving the local needs. The evidence shows that the requirements by the interstate producers were irregular and intermittent. The evidence shows that the interstate producers operate on a seasonal basis and that the services of the defendant are not required at all times; and further, that the interstate producers are for the most part in a new Idaho industry. We call attention to the testimony of the Government's main witness, Harrison Grathwohl, wherein he admits that without the business of the interstate producers, the defendant would in fact be a retail establishment. (T. p. 117) This witness also admitted the defendant does practically the same things the old timers did in tin shops. (T. p. 112)

In the *Zachry* case the Court, in commenting on the *Kirschbaum* and other cases, including the H. R. Conf. Rep., Cong. Rec. 14875, stated:

"But no illustration in either statement deals with construction of a dam designed solely for use as an impounding facility for a local water distribtion system."

And commenting on the 1949 amendment, the Court stated:

". . . To do so requires that we once again apply the formulation set down in *Kirschbaum*, which in the light of the 1949 amendment, we must do with renewed awareness of the purpose of Congress to avoid intrusion into withdrawn local activities."

And again the Court states in commenting on *Mitchell vs. Lublin, McGaughy & Associates*, 358 U.S. 207, and *Mitchell vs. Vollmer & Co.*, 349 U.S. 427: (In each of these cases a construction activity was found to be directly and vitally related to commerce, and they are not useful guides here.)

"What is finally controlling in each case is the relationship of the employment to 'commerce,' in the sense of the statute, and it needs no argument that as to that relationship this case is significantly different from *Lublin* or *Vollmer*."

And further on, the Court states:

"Moreover, though construction and operation of this dam are equally 'directly essential' to the producers who require the water impounded and distributed, neither the construction or the operation of the dam is designed *for their use.* (emphasis added) Water is supplied by the District to a mis-

cellany of users throughout its geographical area, and somewhat less than half of the consumption is by producers."

This differentiates the case from the *Farmers Reservoir* case.

In commenting on the *Alstate Construction Co. v. Durkin*, 345 U.S. 13, the Court concludes:

> ". . . It is a sufficient answer to this contention that the record is devoid of evidence of a purposeful and substantial dedication of otherwise local production to consumption by 'commerce' which was the basis of our decision in *Alstate*."

The rationale of Justice Frankfurter in the *Zachry* case (supra) draws a clear distinction between the cases decided before the 1949 amendment and those decided after. We quote from the *Zachry* decision:

> "While attempted formulas of the relationship to production required for coverage cannot furnish automatic or spontaneous answers to specific problems of application as they arise in their protean diversity, general principles of the Act's scope afford direction of inquiry by defining the broad bounds within which decision must move. * * * For the Act also manifests the competing concern of Congress to avoid undue displacement of state regulation of activities of a dominantly local character. Accommodation of these interests was sought by the device of confinement of coverage to employment in activities of traditionally national

concern. The focus of coverage became 'commerce,' not in the broadest constitutional sense, but in the limited sense of §3(b) of the statute: 'trade, commerce, transportation, transmission or communication among the several States . . .' "

Then Justice Frankfurter engages in a discussion of the distinction between employment "in commerce" as compared to production "for commerce" and suggests that each step becomes more remote and less related to commerce. The Justice reasons that employment "in" commerce is the least affected by local interests and that the next step removed from employment "in" commerce is employment "in" production which is "for" commerce.

The Court goes on to state:

> "Furthest removed from 'commerce' is employment not 'in' production 'for' commerce but in an activity which is only 'related' to such production . . ."

And while the Court held coverage in *Mitchell v. Independent Ice and Cold Storage Company*, 294 F 2d 186 (CA-5) (1961), this was distinguished from the *Zachry case*. In the *Independent Ice* case, the suppliers had no history as a retail establishment nor was it set up to furnish services to local users. In the case of *Public Building Authority of Birmingham v. Goldberg*, 298 F. 2d 367 (1962), the Court again in referring to the *Zachry* case, drew a distinction between an establishment set up to serve an interstate

producer and an establishment local in nature and set up to serve the locality.

Under Title 29, Chapter V, Wage and Hour Division of the Department of Labor, Part 776 of the Code of Federal Regulations, the Administrator has issued Interpretative Bulletins for the purpose of construing and interpreting the Act for enforcement purposes. Under Bulletin 776.17, entitled "Employment in a 'Closely Related Process or Occupation Directly Essential to' Production of Goods.":

> "(a) Coverage in General. Employees who are not actually 'producing * * * or in any other manner working on' goods for commerce are, nevertheless engaged in the 'production' of such goods within the meaning of the Act and therefore within its general coverage if they are employed 'in any closely related process or occupation directly essential to the production thereof, in any State.' Prior to the Fair Labor Standards Amendments of 1949, this was true of employees engaged 'in any process or occupation necessary to the production' of goods for commerce. The Amendments deleted the word 'necessary' and substituted the words 'closely related' and 'directly essential' contained in the present law. The words 'directly essential' were adopted by the Conference Committee in lieu of the word 'indispensable' contained in the Amendments as first passed by the House of Representatives. Under the amended language, an employee is covered if the process or occupation in which he is employed is *both* 'closely related' *and*

'directly essential' to the production of goods for interstate or foreign commerce.

"The legislative history shows that the new language in the final clause of section 3(j) of the Act is intended to narrow, and to provide a more precise guide to, the scope of its coverage with respect to employees (engaged neither 'in commerce' nor in actually 'producing or in any other manner working on' goods for commerce) whose coverage under the Act formerly depended on whether their work was 'necessary' to the production of goods for commerce. Some employees whose work might meet the 'necessary' test are now outside the coverage of the Act because their work is not 'closely related' and 'directly essential' to such production; others, however, who would have been excluded if the indispensability of their work to production had been made the test, remain within the coverage under the new language.

"The scope of coverage under the 'closely related' and 'directly essential' language is discussed in the paragraphs following. In the light of explanations provided by managers of the legislation in Congress, including expressions of their intention to leave undisturbed the areas of coverage established under court decisions containing similar language, this new language should provide a more definite guide to the intended coverage under the final clause of section 3(j) than did the earlier 'necessary' test. However, while the coverage or noncov-

erage of many employees may be determined with reasonable certainty, no precise line of inclusion or exclusion may be drawn; there are bound to be borderline problems of coverage under the new language which cannot be finally determined except by authoritative decisions of the courts."

In paragraph (b) we find the following statement:

"(b) Meaning of 'Closely Related' and 'Directly Essential.' The terms of 'closely related' and 'directly essential' are not susceptible of precise definition; as used in the Act they together describe a situation in which, under all the facts and circumstances, the process or occupation in which the employee is employed bears a relationship to the production of goods for interstate or foreign commerce (1) which may reasonably be considered close, as distinguished from remote or tenuous, and (2) in which the work of the employee directly aids production in a practical sense by providing something essential to the carrying on in and effective, efficient, and satisfactory manner of an employer's operations in producing such goods . . ."

Under paragraph (c), subparagraph (2):

"(2) The determination of whether an activity is closely or only remotely related to production may thus involve consideration of such factors, among others, as the contribution which the activity makes to the production; who performs the activity; where, when and how it is performed in relation to the production to which it pertains;

whether its performance is with a view to aiding production or for some different purpose; how immediate or delayed its effect on production is; the number and nature of any intervening operations or processes between the activity and the production in question; and, in an appropriate case, the characteristics and purposes of the employer's business. Moreover, in some cases where particular work 'directly essential' to production is performed by an employer other than the producer, the degree of such essentiality may be a significant factor in determining whether the work is also 'closely related' to such production."

In Bulletin 776.18, paragraph (b), we find the following:

"(b) Employments Not Directly Essential to Production Distinguished. Employees of a producer of goods for commerce are not covered as engaged in such production if they are employed solely in connection with essentially local activities which are undertaken by the employer independently of his productive operations or at most as a dispensable, collateral incident to them and not with a view to any direct function which the activities serve in production . . . "

In Bulletin 776.19 we find:

"(a) General Statement. (1) If an employee of a producer of goods for commerce would not, while performing particular work, be 'engaged in the production' of such goods for purposes of the

Act under the principles heretofore stated, an employee of an independent employer performing the same work on behalf of the producer would not be so engaged . . . "

"(a) (3) . . . it may appear that his performance of the work is so much a part of an essentially local business carried on by his employer without any intent or purpose of aiding production of goods for commerce by others that the work, as thus performed, may not reasonably be considered 'closely related' to such production . . . "

The State of Idaho still retains control over purely local businesses and establishments. The Government should use caution not to invade or usurp the local control of a purely local business.

RETAIL ESTABLISHMENT EXEMPTION—Section 13(a)(2) and (4)

The remaining issues stipulated at the pre-trial hearing are:

1. Whether the defendant's business is, by nature, outside the retail concept, and

2. Whether the defendant's employees are exempt from the overtime requirements of the Act by virtue of their employment by a "retail or service establishment" as defined in Sections 13(a)(2) and 13(a)(4) of the Act. Essentially, these sections of the Wage and Hour Law provide that an employer must meet the following six standards before the retail exemption will be applied to his business operations:

(1) Over 50% of the establishment's annual dollar volume of sales must be made within the state in which the establishment is located.

(2) At least 75% of the establishment's annual dollar volume of sales must be to purchasers who do not buy for resale.

(3) At least 75% of the establishment's annual dollar volume of sales must be recognized in the particular industry as retail sales.

(4) The establishment must be recognized as a retail establishment in the particular industry.

(5) The goods which the establishment makes or processes must be made or processed at the establishment which sells them.

(6) More than 85% of the establishment's annual dollar volume of sales of goods which it makes or processes must be made within the state in which the establishment is located.

Counsel for the plaintiff has conceded that defendant meets requirements (1), (2), (5) and (6).

However, *Mitchell v. Kentucky Finance Company*, 359 U. S. 291, 3 L. Ed. 2d 615 (1959), imposes an additional requirement. This case holds that a court must make a preliminary factual determination as to whether or not the industry is outside the traditional retail concept before turning to the tests of 13(a)(2) and (4). This preliminary test is based upon the prior status of the industry in question. Thus, if the courts or the administrator have labeled

the industry in question as being non-retail in character, this status continues and the requirements of Sections 13(a) (2) and (4) will not be applied.

> "We find nothing in the debates or reports which suggests that Congress intended by the amendment to broaden the field of business enterprise to which the exemption would apply. Rather, it was time and again made plain that the amendment was intended to change the prior law only by making it possible for business enterprises otherwise eligible under existing concepts to achieve exemption even though more than 25 per cent of their sales were to other than private individuals for personal consumption, provided those sales were not for resale and were recognized in the field or industry involved as retail." (at page 294)

However, before inquiring as to the traditional status of an industry, the industry under consideration must first be defined and categorized.

Briefly stated, it is defendant's contention that:

(1) The industry herein under consideration is the "custom sheet metal industry;"

(2) This industry has not been determined by the administrator or the courts as "non-retail;"

(3) Counsel for the plaintiff's basis for defining this industry is based upon the repudiated "business use test;" and

(4) All witnesses testifying on the retail exemption issue stated that this industry has a traditional concept of being retail in nature.

We would respectfully submit that the transcript clearly shows that the industry under consideration is the custom sheet metal and building industry. (T. pp. 44, 54, 69, 72)

The testimony of Mr. Herbert Shockey and Mr. Vestal Coffin, both of whom are employed in the industry and familiar with its background and evolution, testified that this industry is separate and distinct from other operations using sheet metal. (T. pp. 63-76)

The attributes and distinct characteristics of this industry were very succinctly brought out in cross examination. (T. p. 74).

This and other testimony adduced at the trial show that we have a local industry servicing the general public with a certain type of product that cannot be found elsewhere. It is not a manufacturer in the strict sense of that word in that its products are all customized and are not made from standard forms nor built on a production-line basis. (T. pp 47, 48) Nor is it a hardware store in that it does not purchase its products from manufacturers or wholesalers. It is a specific, well defined area of operation referred to as a "custom sheet metal industry."

In another portion of the transcript, Mr. Shockey, president of the defendant corporation, again reiter-

ated the precise area in which this industry operates, showing a retail custom shop. (T. pp 53, 54).

Once the industry under consideration has been defined, the next question is: What is its traditional status?

In researching the question, the author has yet to find an interpretive bulletin or manual wherein the "custom sheet metal industry" has been determined by the administrator or the courts. Counsel has correctly pointed out "machine shops," "industrial blacksmiths," "establishments engaged in reconditioning industrial tools," and "establishments engaged in resistance welding" have all been mentioned as not being retail in nature.

We would respectfully submit that the testimony in the case at bar clearly shows that the industry under consideration is not in any of the above categories. In addition, the cases that the administrator has apparently used in determining that establishments engaged in selling or servicing of construction, mining, manufacturing, and industrial machinery have been over-ruled by the 1949 amendment. In the interpretive bulletin above-cited, these industries were recognized as non-retail on the authority of the following cases:

> *Roland Electric Company v. Walling*, 325 U. S.657; *Guess v. Montague*, 140 F. 2d 500; *Walling v. Thompson*, 65 F. Sup. 686.

In the *Roland* case, supra, the employer was engaged in the work of repairing electrical motors and

generators, the reconstruction of used motors, and performing electrical work at the different establishments. The United States Supreme Court in dealing with the retail exemption issue, held that since the employer here was engaged in selling his products to commercial users, rather than to people for their personal use, no exemption could be granted. This then was the evolution of the "business use test." In the *Montague* case, Supra, the employer was engaged in manufacturing and repairing machinery. This Court also applied the "business use test" and held that since the ultimate consumer was an industrial concern, the exemption could not be applied. In the *Thompson* case, supra, the employer was engaged in the business of installation, servicing and repair of burglar alarm systems, leased and serviced by the employer to firms and concerns wholly within the State of California. This Court also applied the "business use test" in the following language:

> ". . . It may be broadly stated that the 'retail' character of the employer is not to be determined by the nature of the employer's business exclusively, but also, whether the final purchaser uses the services or commodity to satisfy a personal want or necessity; or uses it to satisfy a business necessity."

It should be noted first that we are not "industrial backsmiths," "machine shops," or engaged in reconditioning of industrial tools or resistance welding. Secondly, the test by which these industries were con-

sidered non-retail has been discarded by virtue of the 1949 amendment to the Act.

Senators Taft and Donnell, members of the Labor and Public Welfare Committee, supplemented the Committee's report with views of their own. After discussing the test established in *Roland Electric Company v. Walling*, supra, they said:

> "There is no sound basis to distinguish, in determining whether or not a sale is retail, between sales to customers for personal use and sales to customers for business use. Accordingly, it is our view that concurrently with any increase in the minimum wage, Section 13(a)(2) of the law should be amended to remove such distinction."
>
> (U.S. Code Cong. Serv., 81st Cong., 1st Session, 1949, p. 2251)

In the House Conference Report concerning the same amendment, it was said:

> "The third test provides that 75% of the establishment's annual dollar volume of sales of goods or services (or of both) must be recognized in the particular industry as retail sales or services. Under this test any sale or service, *regardless of the type of customer*, will have to be treated by the administrator and courts as a retail sale or service, so long as such sale or service is recognized in the particular industry as a retail sale or service." (id. p. 2264)

As a matter of fact, *Mitchell* v. *Kentucky Finance*

Company, supra, cited by plaintiff, affirms the intent of Congress to repudiate the business use test. In another case cited by counsel for the plaintiff, *Goldberg* v. *Roberts*, 291 F. 2d 532, (9th Cir-1961), the following was stated with regard to those industries classified by the business use test:

> "* * * Its holding is that where it has been established by pre-amendment (i.e., pre-1949) interpretation that an industry is not retail, *unless that classification was due to an application of the business use test, that industry is not now exempt.*"

Therefore, even if by any stretch of the imagination, the industry under consideration could be classified in the same general definition of "industrial blacksmiths" etc., we submit that this classification has been overruled by the repudiation of the business use test.

In connection with the traditional or original concept of this business, several witnesses testified as to how it is considered from the standpoint of its history. (T. P. 51) In addition to the testimony of Mr. Shockey and Mr. Coffin, counsel for the plaintiff's expert, Mr. Grathwohl, concurred with the opinions of Mr. Coffin and Mr. Shockey with regard to this prior status. (T. p. 112)

This testimony is of material significance in asserting our position that we have a traditional or original concept of retail operation. If, as Dr. Grathwohl conceded, the old tin shop in the bottom of the hardware store was a retail operation, and work they did then

is the same as the work they do now, it would seem to follow that they do retail work now. It is apparent that Dr. Grathwohl was making his distinction not upon the type of work they engage in but upon the type of customer who uses the product, or in other words, the business use test.

Therefore, the "preliminary determination" of the *Kentucky Finance* case, supra, has been satisfied, in that the "custom sheet metal industry" has no pre-1949 status. Since the determination required by the *Kentucky Finance* case, supra, is essentially a preliminary fact determination, the next question is whether or not there are any factors inherent in the operation of this industry which would deny it a retail concept. As previously stated, Idaho Sheet Metal Works is engaged in the business of creating objects out of sheet metal per the order of an individual. In all cases the party ordering the equipment is the ultimate consumer of same. Thus, the first question is: Does the factor of custom building place defendant outside the retail concept? In *Snavely et al* v. *Shugart*, 45 F. Sup. 722 (Texas-1942), an employer was engaged in the business of testing eyes, prescribing proper glasses and making and fitting glasses. Here, the Texas Federal District granted the employer a retail exemption. Clearly, prescribing glasses and making them to order for a particular customer is as much if not more a custom operation as constructing a piece of equipment out of sheet metal pursuant to the qualifications of a consumer.

Does the fact that the defendant processes the object to be sold take it out of the retail concept? In light of Section 13(a)(4) of the Act, the factor of building or processing the object is no longer controlling in determining whether or not an establishment is retail in nature.

Does the fact that the defendant has no display windows or stock counters deny it a retail concept? This factor was dealt with in the case of *Lesser* v. *Sertner's Inc.*, 166 F 2d 471 (2d Circuit-1948). In this case the employer was engaged in the business of cleaning, renovating and repairing upholstered furniture, draperies, curtains, rugs, and carpets. This Court, in commenting on the fact that the business under consideration did not look like a retail store, stated the following:

> "In reaching this conclusion, the Court stressed the fact that the conduct of the business was not designed to attract the attention of the consuming public in the manner usually associated with retail establishments, and did not have any of the characteristics 'epitomized by the corner grocery, the drug store, and the department store.'
>
> "Sertner's occupied the entire twelfth floor of a loft building located in a factory neighborhood. The customer whose goods were cleaned and processed rarely came to the premises. It employed about twenty employees, but had no sales clerk to wait on trade, and no display windows to attract the patronage of the general public; * * *

"It is true, as the foregoing facts show, that the appellant's business was not conducted in the manner characteristic of the small retail store, nevertheless, we think it should be held to come within the exemption of Section 13(a) (2). As we read the authorities, the test of whether the local merchant or purveyor of service is operating a retail establishment is the type of customer he has; the volume of his business, the number of his employees or the manner in which trade is attracted and customers obtained is *not* material. If the customers are 'ultimate consumers' of the goods sold or serviced locally, the establishment is retail."

Thus, a determination of whether or not a business establishment has a "retail concept" must not be made upon the basis of whether or not it is manufactured at the place of sale, whether or not it has display windows or counters, nor whether or not the ultimate consumer uses it for his personal use or industrial uses.

Since the preliminary determination of the *Kentucky Finance* case, supra, has been satisfied, we now must turn to the requirements of Section 13(a) (4). Counsel has conceded that four of the tests under this section have been met. The remaining questions then are:

1. Is at least 75% of the establishment's annual dollar volume of sales recognized in the particular industry as retail sales?

2. Is the establishment recognized as a retail

establishment in the particular industry?

Counsel for the plaintiff has stated in the record that there is no showing on the record that 75% of the defendant's sales are not for resale. In answer to this position, we wish to point out that the transcript shows that *all* sales made by the defendant corporation are made to the ultimate consumer of same, and are not for resale. (T. pp. 58, 83, 59, 64, 65, 69, 70, 71, and 73) As a matter of fact, the whole tenor of this business (customized building) would indicate that it is for the specific use of the person buying the object and would not be for resale under any circumstances.

Therefore the remaining issue is whether or not the defendant's sales are considered retail in the industry. In this particular area, the witnesses testifying were Herbert Shockey, the manager of Idaho Sheet Metal Works; Vestal Coffin, accountant and attorney for Idaho Sheet Metal Works; Roderick Law, a salesman for the Alaska Copper and Brass Company, who has sold products to the defendant for seven or eight years; and Lynn A. Lake, branch manager for the Structural Steel and Forge Company in Twin Falls. The sole witness testifying for the plaintiff on the exemption issue was Dr. Grathwohl, who is the recipient of a Doctorate in Business Administration and a marketing specialist. Dr. Grathwohl candidly admitted on cross examination that he had no detailed familiarity with the metal trades industry and that he has never worked in it. (T. p. 114)

In contrast to this testimony, defendant's witness, Vestal Coffin, testified that he has been connected with the defendant's operations since its inception in 1957. (T. p. 58) As a point of background, Mr. Coffin also stated that he has been familiar with this type of industry since his childhood. (T. pp 68, 69) Thus, the transcript clearly discloses that this particular witness is in the industry and by virtue of his varied background is extremely competent to give observations as to the retail or non-retail character of the defendant's establishment. On page 73 of the transcript, Mr. Coffin unequivocally stated that the industry is considered retail.

The next witness was Mr. Clifford P. Jackson, manager of the Idaho Sheet Metal Works, the defendant herein. Mr. Jackson testified on page 80 of the transcript that the defendant establishment is considered retail in the industry.

Mr. Herbert Shockey, owner of the Idaho Sheet Metal Works, stated on page 51 of the transcript:

> "All of my life I have recognized our business as a retail business."

Another witness presented by the defense on the retail exemption issue was Lynn A. Lake, branch manager of the Structural Steel and Forge Company in Twin Falls, Idaho. Mr. Lake testified from pages 88 to 90 stating, in effect, that he has been selling products to the defendant corporation for a period of ten years. Mr. Lake stated that the defendant estab-

lishment is considered retail in the industry. (T. pp. 89, 90, 91)

The next witness was Roderick Law, a salesman for the Alaska Copper and Brass Company in Portland, Oregon. Mr. Law's testimony is reproduced in the transcript from pages 91 to 95. Mr. Law stated that his particular branch of the metal industry considers the defendant to be a retail establishment. (T. p. 91)

The sum total of this evidence leaves little doubt that both people in the industry and those most directly connected with it consider the defendant to be a retail establishment.

Dr. Grathwohl stated that the defendant corporation is not a retail outlet and based his opinion on several general tests applicable to the marketing field.

This opinion was based upon several factors, most of which have been ruled on by the courts. One of the factors he considered relevant was the fact that the defendant did not engage in sales traditionally considered to be retail in that they were not over the counter or door to door type. As mentioned previously, in *Lesser* v. *Sertner's, Inc.*, supra, the fact that an establishment does not have the outward attributes of a retail store is not controlling in granting the exemption.

Another aspect of this business, material to Dr. Grathwohl, was the fact that the defendant processes

its products. At page 106 of the transcript, the Dr. applied the form utility test, the gist of which seems to be that if a retailer manufactures or processes its product, this processing or manufacturing must be only incidental to selling. In other words, if the primary purpose of the establishment is to create a useful form, and selling is only incidental, the establishment is a manufacturer. We would submit that since all products made in the defendant's plant are sold before they are made (customized building), our primary function is sale. Stated another way, we do not disagree with the test but only with its application.

Another test used by the Doctor was: How is the defendant's industry classified in the Standard Industrial Classification Code? (T. pp. 108, 109) On page 110 of the transcript, the Doctor summed up his tests by stating:

> "* * * In all of the tests I have applied, it is that the predominant business is not retailing. Predominantly it is selling industrial goods to industrial buyers, and they are manufacturers."

On cross examination Dr. Grathwohl seemed to lay great stress upon the use for which the product is purchased.

> "Q. Would you say if I purchased a product as a custom order, that would not be a retail purchase?
>
> A. It depends on who you are.

Q. General public?

A. It most probably would be a retail purchase.

Q. And you heard the testimony that all of the sales to the processors and the public are on the same standard; you heard that?

A. Yes.

Q. And in your opinion, the sales to the processors come in a different catgeory than the sales to the public?

A. Yes.

Q. And this size?

A. Yes.

Q. And the use of the product?

A. That is one."
(T. p. 113)

In another portion of the transcript, this point was again demonstrated:

"Q. The question is: If all the interstate purchasers, the processors and the sugar company, etc., were to quit patronizing this defendant, would it be your opinion that they would be a retail establishment under this law?

A. If the majority of the sales went to the small consumer, the general public, yes."
(T. p. 117)

With all due respect to Dr. Grathwohl's position in the academic world, several cases dealing with the

retail exemption have rejected this type of testimony.

In *Mitchell* v. *T. F. Taylor Fertilizer Works*, 233 F. 2d 284 (6th Circuit-1956), a Professor Beckman of Ohio State based his opinion upon the Standard Industrial Classification, the fact that the defendant corporation manufactured its product, and the use to which the buyer puts the product, i.e., industrial or personal use. (at pp. 287, 288) In dealing with this testimony, the Fifth Circuit Court stated the following:

> "The Secretary's argument with regard to the appellee's business is essentially that because it carries on manufacturing activities, the fact that industry members, who must be regarded as biased, consider it to be retail is of little weight. However, it is admitted that 'ice plants which manufacture the ice they sell' were regarded by Congress as typical exemptions under 213 (a)(4). (95 Cong. Rec. 14932) Thus, the testimony of the industry members on this point cannot be brushed aside as wholly without foundation; moreover, Professor Beckman's thinking, which would exclude all manufacturing from the retail exemption, and which defines manufacturing as the transforming of organic or inorganic substances into new products, would probably also exclude the ice plant, which Congress thought to be typically exempt."

In another portion of the opinion:

> "The Secretary's evidence was for the most part based on the classification of the fertilizer industry

for census and other purposes, made by general standards adopted for use in classifying all businesses. Thus, Professor Beckman, while an expert in matters relative to the census of wholesaling, did not profess any personal knowledge of the fertilizer industry. He had never been in a fertilizer plant. * * * The expert believed the matter governed by general definitions, which if Congress had so intended, could have been placed in the Act itself."

In *Boisseau* v. *Mitchell*, 218 F. 2d 734 (5th Cir.-1955), Professor Oakes of Loyola University again stressed the Standard Industry Classification Manual. He also stated that the industry under consideration was not retail in the sense in which those terms are usually applied. However, in answering these tests, this Court stated the following:

"It is most significant, however, that his entire testimony was based upon what he considered the standard definition of 'retail' sales or services—'made for the ultimate consumer for personal or family use.' This, of course, is precisely the concept which Congress repudiated in passing the 1949 amendents."

It would appear, therefore, that in the instant case the main witness for the Government was unqualified to testify as to whether the defendant was considered a retail establishment either within or without the industry, and that since Dr. Grathwohl was the principal witness for the Government, they have failed

to meet the defendant's defense on this issue. The defendant has shown that the principal case relied upon the Government, the *Kentucky Finance* case, supra, does not apply to the facts, in this case.

In addition to the arguments heretofore made, we call the Court's attention to the fact that in the congressional debates and in the committee reports the question of advancing credit or making loans was ruled out as not being a proper subject or material for retail sales. No such determination could be made with reference to the making and selling of metal products.

CONCLUSION

In summary and conclusion, the unimpeached testimony and exhibits clearly support the findings of the trial court. The findings of fact and evidence from the transcript amply support the view that the defendant is an independent employer engaged in a purely local business, serving the community's needs, with a background and history of a retail establishment. The defendant serves interstate processors incidentally and at irregular intervals, primarily when said processors are in the "down" period.

Under this statement of facts and under the authority of the *Zachry* case, supra, the defendant is not engaged in producing for or in commerce.

The defendant is firmly convinced from the facts, and the trial court so held, that it has fully met all the tests relating to a retail establishment under Sec-

tions 13(a)(2) and (4), as amended by showing:

1. That the defendant has a background and history as a retail establishment.

2. All of the defendant's sales are retail and none are for resale; all sales are made to the ultimate consumer.

3. The defendant is considered a retail establishment by both those within the industry and those outside the industry.

The defendant is therefore entitled to a judgment dismissing the above-entitled action.

Respectfully submitted,

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ELI A. WESTON, Attorney
and
VESTAL COFFIN, Associate Attorney

March, 1964

CERTIFICATE

I certify that in connection with the preparation of this brief I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

ELI A. WESTON
Attorney

Nos. 18887, 18888

In the United States Court of Appeals for the Ninth Circuit

W. WILLARD WIRTZ, SECRETARY OF LABOR, UNITED STATES DEPARTMENT OF LABOR, APPELLANT

v.

IDAHO SHEET METAL WORKS, INC., A CORPORATION, APPELLEE

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF IDAHO

BRIEF FOR APPELLANT

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Statutes:

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In the United States Court of Appeals for the Ninth Circuit

Nos. 18887, 18888

W. Willard Wirtz, Secretary of Labor, United States Department of Labor, appellant

v.

Idaho Sheet Metal Works, Inc., a Corporation, appellee

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF IDAHO

BRIEF FOR APPELLANT

STATEMENT OF JURISDICTION

These are two actions brought by the Secretary of Labor under the Fair Labor Standards Act.[1] Section 17 of the Act authorizes the district courts of the United States to restrain violations of the Act, while Section 16(c) authorizes the Secretary of Labor to bring suit on behalf of employees to recover amounts due them under Sections 6 and 7, the minimum wage and overtime provisions of the Act. Accordingly, Cause No. 18887 was brought by the Secretary pursu-

[1] Act of June 24, 1938, c. 676, 52 Stat. 1060, as amended by Fair Labor Standards Amendments of 1949, c. 736, 63 Stat. 910, 29 U.S.C. 201, *et seq.* The Amendments of 1961 (75 Stat. 65) do not affect the issues in these cases.

ant to Section 17 to enjoin further violations by defendant of the Act's overtime provisions (A5–A6), while Cause No. 18888 was instituted under Section 16(c) to recover unpaid overtime compensation on behalf of defendant's employee, William D. Combs (B1–B6).[2] The two actions were consolidated for trial (A30), at the conclusion of which the district court held that defendant's employees were not within the coverage of the Act, and, further, that defendant's enterprise was an exempt establishment (A58–A61; B24–B27). The district court then made findings of fact and conclusions of law (A58–A61; B24–B27), and entered judgment for defendant in both cases on April 15, 1963, denying the requested relief (A62; B28). Notices of appeal were filed on June 12, 1963 (A63, B29). On September 24, 1963, a motion to consolidate these actions for purposes of appeal was granted by this Court, which has jurisdiction to review the judgments below under 28 U.S.C. 1291 and 1294(1).

STATEMENT OF THE CASE

The facts in these cases are undisputed, many of them having been stipulated and incorporated with the consent of the parties in the district court's pretrial order (A29–A45). It is admitted that during the years 1959 through 1961 defendant did not pay its employees in accordance with the overtime provisions

[2] Page numbers preceded by "A" refer to Volume 1 of the record on appeal in Cause No. 18887; page numbers preceded by "B" refer to the record on appeal in Cause No. 18888; page numbers preceded by "T" refer to the transcript of proceedings at the trial of these cases, which has been designated as Volume 2 of the record of Cause No. 18887.

of the Fair Labor Standards Act (A27, A42, A43), and that this practice has continued thereafter (A43). It was similarly established, in connection with Cause No. 18888, that if the legal issues involved in these cases are resolved in favor of the Secretary, he is entitled to recover $500, plus costs (A44). Thus, the issues on appeal, as at trial, relate to (1) whether defendant's employees, on the basis of work they perform for their employer's customers who produce goods for interstate commerce, are engaged in a "closely related process or occupation directly essential" to such interstate production, so as to bring them within the coverage of the Act;[3] and (2) whether defendant's business is a retail or service establishment exempt from the Act's requirements under Sections 13(a)(2) and 13(a)(4).[4]

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[3] The section of the Act relevant in this regard is Section 3(j) which reads:

"Sec. 3. As used in this Act—

"(j) 'Produced' means produced, manufactured, mined, handled, or in any other manner worked on in any State; and for the purposes of this Act an employee shall be deemed to have been engaged in the production of goods if such employee was employed in producing, manufacturing, mining, handling, transporting, or in any other manner working on such goods, or in any closely related process or occupation directly essential to the production thereof, in any State."

[4] The relevant portions of Section 13 read as follows:

"Sec. 13(a). The provisions of sections 6 and 7 [the Act's minimum wage and overtime requirements] shall not apply with respect to * * *

"(2) any employee employed by any retail or service establishment, more than 50 per centum of which establishment's annual dollar volume of sales of goods or services is made within the State in which the establishment is located * * *. A 'retail or service establishment' shall mean an establishment 75 per centum of whose annual dollar volume of sales of goods

The employees involved in these cases are some twelve sheet metal workers at defendant's sheet metal plant in Burley, Idaho, who were engaged in the fabrication, installation, maintenance, and repair of sheet metal products (A30, T31–T35, T44). They did no selling; in fact defendant employed no sales clerks at this plant (T48). These employees worked in a high-ceilinged, one-story cinder block building located about three-quarters of a mile from Burley (T25, T26). The building has a small metal door at the front and a large sliding door through which trucks can be driven (T26, T85). The building is not equipped with show windows, sales counters, or cash registers (T27, T50), but primarily houses workbenches and machinery for cutting and shaping sheet metal, such as a power shear, a power roller, and a power brake (T39–T43).

Although the defendant does some fabrication work for other industries and even for individuals (A39–A40, T45, T50), and, as an "incidental", sells items such as bolts and nuts, elbow conductors, and down spouts (T45), some 83 percent of its gross income during the years 1959 through 1961 ($563,035 out of

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or services (or of both) is not for resale, and is recognized as retail sales or services in the particular industry; or * * *

"(4) any employee employed by an establishment which qualifies as an exempt retail establishment under clause (2) of this subsection and is recognized as a retail establishment in the particular industry notwithstanding that such establishment makes or processes at the retail establishment the goods that it sells: *Provided*, That more than 85 per centum of such establishment's annual dollar volume of sales of goods so made or processed is made within the State in which the establishment is located; * * *."

a total of $673,808) was derived from the manufacture, installation, maintenance and repair of equipment for five large potato processors located in the Burley area: J. R. Simplot Company, Shelley Processing Company, Idaho Potato Processors, Inc., Ore-Ida Foods, Inc., and the Great Atlantic & Pacific Tea Company (A31–A36). Such equipment, which admittedly defendant's employees spent a substantial part of their time working on (A31–A36), included vats, storage tanks, elevator buckets, and chutes—all of which are used by the processors in producing dehydrated and frozen potato products for interstate shipment and sales (A31–A36).[5]

None of this potato processing and handling equipment is maintained in stock by defendant; rather it is "made to order" in accordance with the plans and specifications of the particular customer (A41, T48). All of this work is performed on a "time and material" basis, *i.e.,* the amount which defendant charges for a particular job is determined by adding the per hour labor charge to the cost of the materials used (A41), and payment is generally received upon in-

[5] Mr. Wallace J. Carrier of the Shelley Processing Company testified as to several of these types of items and the use made of them by his company. These included a number of receiving tanks, each holding some 5,000 pounds of peeled potatoes, which are located at the ends of the trimming tables in the Shelley plant and help control the feed of the potatoes to the individual processing lines (T11, T13, T35). In addition, the Shelley plant uses elevator buckets and chutes made by defendant for the purpose of transferring potatoes from one processing line to another (T15–T16), while the hoods, some 50 of which are located over the various cookers in the plant, are used to vent steam and vapors through the roof of the plant (T14).

voices presented at various intervals as the work progresses (T23). It was shown that some of the work—both fabrication and installation—was performed in the customer's plant, and on some such occasions, defendant's employees would work side by side with the customer's employees, under the same supervision (T23–T24).

In addition to the 83 percent of its income derived from the foregoing work performed for the five potato processors, defendant, during the same years, 1959 through 1961, obtained another 3 percent of its income ($20,675) from comparable work performed for five other companies similarly engaged in producing goods for interstate commerce. Accordingly, it was stipulated that during these three years defendant's employees spent a substantial amount of their time in fabricating, maintaining and repairing sugar beet processing and sugar manufacturing equipment for the Amalgamated Sugar Co.; working on bins, hoppers, and chutes used by the Burley Flour Mills in the production of flour and millfeed; producing seed handling and processing equipment used by Western Seed, Inc. and Union Seed Co. in processing grasses, grains, and legumes into seed products and animal feeds; and in fabricating and installing plant equipment for the Boise Cascade Container Corporation (A36–A39).

It was defendant's contention that none of the foregoing work brought its employees within the coverage of the Act as being engaged in activity closely related and directly essential to the interstate production of its customers, and the district court agreed, concluding

that "employment in a local business such as we have here" is not within the Act's coverage (A55).

In addition, as an affirmative defense, defendant claimed that its plant was a "retail or service establishment" and therefore exempt from the requirements of the Act under Sections 13(a)(2) and 13(a)(4). While these two sections impose a number of distinct requirements which must be met in order to qualify for exemption, the parties' stipulation limited the issue to the following three: (1) Whether defendant's business is by its nature outside the retail concept and hence not the type of establishment to which the exemption could be applicable; (2) whether defendant's establishment is recognized as a retail establishment in the industry in which defendant is engaged; and (3) whether 75 percent of defendant's sales of goods and services is recognized as retail in the industry in which defendant is engaged (A43–A44).

Defendant's evidence on this score was presented by five witnesses consisting of defendant's lawyer-accountant (Vestal Coffin), defendant's general manager (Clifford P. Jackson), defendant's president (Herbert Shockey), and two salesmen who sell metal products to defendant (Roderick Law and Lynn A. Lake).

Mr. Coffin testified that he considered establishments such as defendant's to be "custom retail and service establishments" (T73), which he believed to have evolved from the "early tin shop" found in hardware stores around 1900 and with which he was familiar as a boy because of his father's part ownership of a hardware store (T68–T72). He acknowl-

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edged, however, that there are "marked differences" between defendant's operation and that of the traditional tin shop, in that the present type of business is "immensely larger" and the type of product is "larger in size and much higher in price" (T75). While he stated that the customers of the two types of institutions are the same, he did not know whether the tin shop ever did up to 86% of its dollar volume with only five customers as does defendant in this case, nor did he think that the general manager of one of the largest potato processing companies ever came into the tin shop to have a 5,000 pound steel tank made (T75–T76). Mr. Shockey, defendant's president, stated that he regarded his business as a "retail sheet metal shop", apparently because "[e]very job we do is to the customer's specific recommendation and to his personal use" (T50). With reference to his belief that his plant exists to serve the general public he indicated that the number of sales (as distinguished from dollar amount) "to the general public" constituted approximately 60 percent, while sales to processing customers constituted 40 percent (T64–T65).

The three other witnesses called by defendant testified that defendant's establishment is considered as a retail establishment in the industry, but none explained the basis for such alleged recognition (T80, T89–T90, T94–T95).

The foregoing testimony of defendant's witnesses related to the question of whether the establishment itself was recognized as retail in the industry; there was, however, no testimony on their part as to the separate and distinct test of whether at least 75%

of the sales of the establishment were recognized as retail in the industry. While, as already noted, defendant's president differentiated between sales "to the general public" and sales to processing customers, neither he nor any of the defendant's witnesses testified that the latter category of sales, which amounted to some 86% of defendant's dollar volume, were recognized as retail. On the other hand, the Secretary's witness, Dr. Harrison L. Grathwohl, Associate Professor of Marketing at the University of Washington, whose experience included consulting work in the areas of wholesaling and retailing, testified to his opinion, based upon the application of accepted marketing concepts, that the work performed for Shelley Processing Co. and J. R. Simplot Co. was not recognized as retail sales in the sheet metal industry (T100–T101). This conclusion, he explained, was reached on the basis of the amounts consumed by such customers, the character of such customers as manufacturers, and the fact that the sale of goods produced to prior specification is more characteristic of manufacturing than retailing (T102–T104).

In addition to testifying that such sales were not recognized as retail, Dr. Grathwohl also testified with respect to the additional exemption test—whether defendant's establishment itself was recognized as a retail establishment in the industry. In concluding that it was not, he pointed to the allocation of defendant's employees to fabricating work rather than to selling; the fact that defendant's premises are physically devoted to fabricating rather than to selling activities; the heavy distribution of its sales to

five or fewer customers; the fact that defendant's establishment is primarily concerned with adding a manufactured value to the goods it sells, rather than the "time, place and position" utility which is typical of retailing; and its predominant engagement in selling industrial goods to industrial customers (T105–T110). He also noted that the Standard Industrial Classification, arrived at by government agencies as well as industry representatives—such as Dunn and Bradstreet, research bureaus and trade associations—classifies sheet metal work as manufacturing.[6]

Despite this analysis the district court concluded that defendant's establishment is recognized as a retail establishment "as shown by the testimony of the manager of defendant corporation and representatives of companies selling materials to defendant" (A56, A60). The court also concluded that 75% of defendant's sales are recognized as retail sales or services (A60), although its opinion does not indicate the basis for this holding. The court further expressed the view that cases, such as *Roland Electrical Co.* v. *Walling,* 326 U.S. 657, cited by the Secretary to establish that defendant's business is not within the retail concept, were distinguishable or inapplicable (A56).

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[6] The Standard Industrial Classification Manual, published by the Bureau of the Budget, lists "Sheet Metal Work" in its chapter on "Manufacturing", under Industry No. 3444, and states that this classification includes "Establishments primarily engaged in manufacturing sheet metal work for buildings * * * and manufacturing sheet metal stovepipes, light tanks, etc."

SPECIFICATION OF ERRORS

The court below erred:

1. In finding [Fdg. VI (A59, B25)] that defendant's business is not closely related or directly essential to the production of goods for commerce; and in concluding [Concl. II (A60–A61, B26–B27)] that defendant is not engaged in the production of goods for commerce within the meaning of the Fair Labor Standards Act.

2. In failing to conclude that appellee's employees are engaged in the production of goods for commerce within the meaning of the Fair Labor Standards Act.

3. In finding [Fdg. V (A59, B25)] that all of defendant's sales and services were on a retail basis.

4. In finding [Fdg. IV (A59, B25)] that sales and services to the processing companies "were for the most part made and rendered intermittently and/or during the 'down' season."

5. In finding that appellee's establishment, and 75% of its sales of goods or services, are recognized as retail in the particular industry in which it is engaged [Fdg. X (A60, B26)].

6. In concluding that appellee's business meets all the tests of a retail establishment and is therefore entitled to exemption under Sections 13(a)(2) and 13(a)(4) of the Fair Labor Standards Act [Concl. III (A61, B27)].

7. In concluding that appellee's employees are exempt from the provisions of the Fair Labor Standards Act by reason of their employment by a retail and service establishment [Concl. IV (A61, B27)].

8. In dismissing the complaint in Cause No. 18887 [Concl. V (A61)] and failing to grant the injunction prayed for.

9. In dismissing the complaint in Cause No. 18888 [Concl. V (B27)] and failing to enter judgment in favor of the Secretary in the amount of $500.

ARGUMENT

I. Defendant's employees, who fabricate, install, maintain and repair equipment used in producing goods for interstate commerce, are engaged "in the production of goods for commerce" within the meaning of the Fair Labor Standards Act

As shown by the admitted facts in this case 86% of defendant's income for the years 1959 through 1961 was obtained from the fabrication, installation, maintenance, and repair of industrial equipment specifically designed for use by various factories processing goods for interstate commerce (A31–A39; see Statement, *supra*, pp. 4–6).[7] That the engagement of its employees in such work is "closely related" and "directly essential" to the production of goods for commerce, and is thus within the coverage of the Act, is settled beyond doubt by the legislative history of the revelant statutory provision as well as authoritative judicial decisions directly in point here.

The "closely related" and "directly essential" terminology was introduced into the Act when Con-

[7] While the court found that such services were for the most part rendered "intermittently" or during the "down season" (A59, B25), it is clear from the stipulated figures that in the aggregate the work performed for the ten processing companies must inevitably have represented the most regular and predominant part of defendant's activity.

gress amended the statutory definition of "produced" in 1949.[8] That this amended language was intended to include employees performing work of the type involved here is abundantly clear from the conference statements submitted to both Houses together with the proposed amendments. Thus, the Statement of the Majority of the Senate Conferees, in a detailed list of "typical" employees who would remain within the Act's coverage under the amended language, included employees engaged in "[p]roduction of tools, dies, designs, patterns, machinery, machinery parts, mine props, industrial sand, or other equipment used by the purchaser in producing goods for interstate commerce", as well as employees "repairing, maintaining, improving, or enlarging the buildings, equipment or facilities of producers of goods" (95 Cong. Rec. 14874–75). To similar effect is the House Managers' Statement, which pointed out that the amendment would "not affect the coverage under the act of employees * * * who make, repair, or maintain machinery or tools and dies used in the production of goods for commerce" (95 Cong. Rec. 14928–29).

The Congressional intent was made further explicit by the specific approval in the Senate report (95 Cong. Rec. 14874–75) of a number of decisions reached under

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[8] The definition appears in Section 3(j), quoted in full, *supra*, fn. 3, p. 3. Before the amendment, the pertinent portion read: "for the purposes of this Act an employee shall be deemed to have been engaged in the production of goods if such employee was employed in * * * *any process or occupation necessary to the production thereof*, in any State." The 1949 amendment changed the italicized words to read: "or in any closely related process or occupation directly essential to the production thereof".

the previous "necessary to production" language, including *Roland Electrical Co.* v. *Walling,* 326 U.S. 657; *Walling* v. *Amidon,* 153 F. 2d 159 (C.A. 10); *Holland* v. *Amoskeog Machine Co.,* 44 F. Supp. 884 (D.N.H., 1942); *Walling* v. *Hamner,* 64 F. Supp. 690 (W.D. Va., 1946). These approved decisions are clearly indistinguishable from the instant case.

Thus, in *Roland Electrical,* where the employer was an independent enterprise engaged in the reconstruction, repair, and sale of electric motors and the installation of electrical wiring, coverage was upheld since 31 of the employer's miscellaneous active accounts—providing less than 35% of the employer's income (see Court of Appeals decision, 146 F. 2d 745, 746)—were shown to be engaged in producing goods for commerce. To the same effect are the decisions in *Amidon, supra,* where the defendant, a local sand and gravel company, sold blended sand to a steel company for use as lining material to protect from heat equipment used in producing steel products; *Amoskeog Machine Co., supra,* in which maintenance men, such as sheet metal workers and electricians, employed by the defendant, were engaged in repairing machinery for their employer's customers, some of whom were manufacturers of goods for commerce; and *Hamner, supra,* where the employees of a saw mill produced mine props sold to local coal mines for use as roof supports during mining operations.

The contrary decision below, denying the Act's coverage of employees performing work so obviously within the ambit of the above authorities, appears to rest principally upon the trial court's conclusion that

defendant is a "local business", not itself engaged in interstate operations (A54–A55). It is, however, well settled that the Act's application in a particular case "turns upon the nature of the employees' duties, and not upon the nature, local or interstate, of the employer's general business." *Mitchell* v. *H. B. Zachry Co.,* 362 U.S. 310, 315. See also *Mitchell* v. *Lublin, McGaughy & Asso.,* 358 U.S. 207, 211, as well as this Court's decisions in *Mitchell* v. *Anderson,* 235 F. 2d 638, 641, certiorari denied 352 U.S. 926; *Craig* v. *Far West Engineering Co.,* 265 F. 2d 251, 254; and *Tipton* v. *Bearl Sprott Co.,* 175 F. 2d 432, 435. That the 1949 amendment preserved this basic principle is demonstrated by the explicit statements in both the House and Senate reports that employees performing work of the type discussed would remain covered "whether they are employed by the producer of goods or by someone else who has undertaken the performance of particular tasks for the producer" (95 Cong. Rec. 14874–75, 14929), as well as by the express approval of such decisions as *Roland Electrical, Amoskeog Machine Co., Hamner,* and *Amidon, supra,* p. 14 all of which involved similarly "local businesses" serving a miscellany of customers.[9]

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[9] Other decisions, comparable in this respect, which were approved in the Senate report (95 Cong. Rec. 14874–75) include *Walling* v. *Sondock*, 132 F. 2d 77 (C.A. 5), certiorari denied 318 U.S. 772, holding the Act applicable to employees of an independent watchmen service agency, although only 20% (59 out of 254) of the agency's regular customers were engaged in interstate commerce or in the production of goods for commerce (see the district court opinion, 43 F. Supp. 339, 340); and *Walling* v. *Thompson*, 65 F. Supp. 686 (S.D. Cal.), upholding coverage of employees of a firm engaged in the instal-

Neither of the cases relied upon by the trial court—both of which turned upon the remoteness from interstate production of the employees' work rather than the nature of their employer's business—are in point here. *10 East 40th Street Bldg. Co.* v. *Callus,* 325 U.S. 578, dealt with maintenance employees who were not serving production facilities at all, but rather an office building in which office space was leased to a miscellany of tenants some of whom were engaged in the production of goods *elsewhere.* In holding the Act inapplicable because of the "remoteness of [their] occupation from the physical process of production" the Supreme Court carefully distinguished the situation from other cases where the employees,

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lation, repair and maintenance of burglar alarm systems leased to a general miscellany of local customers, only 7.5% of whom were engaged in the production of goods for commerce.

Among the numerous similar decisions after 1949 are *Mitchell* v. *Independent Ice & Cold Storage Co., Inc.*, 294 F. 2d 186 (C.A. 5), certiorari denied 368 U.S. 952, holding within the Act employees of an ice plant, "a very small percentage" of whose ice was delivered to local shrimp packers for preservation of shrimp products prior to interstate shipment; *Mitchell* v. *Dooley*, 286 F. 2d 40, 44 (C.A. 1), certiorari denied 366 U.S. 911, applying the Act to employees of a waste removal service whose customers included producers for commerce as well as "local businesses and private homes"; *Mitchell* v. *Mercer Water Co.*, 208 F. 2d 900 (C.A. 3), sustaining coverage of employees of local utility companies, some of whose gas and water was furnished to concerns manufacturing products for interstate commerce; and *Wirtz* v. *Shepherd*, 15 WH Cases 901, 902, 47 Labor Cases ¶31,432 (M.D. Fla., 1963, not officially reported), holding within the Act employees of "an independent welding and machine shop" serving "various commercial, industrial, and private customers," whose duties included working on equipment used by growers and processors of citrus fruits.

like those of defendant in the present case, were engaged in providing service to facilities "concededly devoted to manufacture for commerce" (325 U.S. 580, 583). Similarly, in *Mitchell* v. *H. B. Zachry Co.,* 362 U.S. 310, the Court, in rejecting coverage of employees engaged in constructing impounding facilities to augment a municipal water supply system, pointed out that the employees were working on "neither a facility of 'commerce' nor a facility of 'production' ", and emphasized the remoteness of their dam construction work from the production activities of those who would be supplied with water from the completed dam (362 U.S. at 319). In the instant case, on the other hand, where the employees were working on the actual equipment specifically intended for use in producing goods for commerce, there is no basis for any comparable concern as to "remoteness" such as led to the closely divided (5 to 4) decisions in the two foregoing cases.

II. Defendant's sheet metal plant does not meet the requirements for exemption as a "retail or service establishment" under Sections 13(a)(2) and 13(a)(4) of the Fair Labor Standards Act

Section 13(a)(2) of the Act provides an exemption from the minimum wage and overtime requirements for a "retail or service establishment" if, among other conditions, 75% of the establishment's annual dollar volume of sales of goods or services is "recognized as retail sales or services in the particular industry." Section 13(a)(4) extends this exemption to a retail or service establishment which makes or processes the goods it sells, provided that it "qualifies as an exempt

retail establishment under [Section 13(a)(2)]", and meets certain additional tests. Among these additional tests is the requirement that the employer's establishment be "recognized as a retail establishment in the particular industry."[10] It is settled that the employer has the burden of proving each of these conditions for exemption, which must be "narrowly construed against the employer * * * and limited to those * * * plainly and unmistakably within their terms and spirit." *Phillips Co.* v. *Walling*, 324 U.S. 490, 493; *Arnold* v. *Ben Kanowsky, Inc.*, 361 U.S. 388, 392; *Mitchell* v. *Kentucky Finance Co.*, 359 U.S. 290, 295; *Consolidated Timber Co.* v. *Womack*, 132 F. 2d 101, 106 (C.A. 9).

Defendant's plant cannot "qualify as an exempt retail establishment" under Section 13(a)(2) since, under the principles of *Mitchell* v. *Kentucky Finance Co.*, 359 U.S. 290, and *Goldberg* v. *Roberts*, 291 F. 2d 532 (C.A. 9), this business does not fall within the "concept" of retail contemplated by that section. In addition to not meeting this threshold requirement, defendant has failed to sustain its burden of proving that it meets the two distinct "recognition" tests quoted above, both of which are "explicit prerequisites to exemption" (*Arnold* v. *Ben Kanowsky, Inc.*, *supra*, 361 U.S. at 392).[11]

1. The grounds on which the Supreme Court ruled, in *Mitchell* v. *Kentucky Finance Co.*, 359 U.S. 290, that personal loan companies were not within the

[10] These sections are quoted in full, *supra*, p. 3, fn. 4.

[11] The various other tests prescribed by Sections 13(a)(2) and 13(a)(4) are not in issue here, since it was stipulated that they have been met.

amended exemption, and upon which this Court similarly ruled in *Goldberg* v. *Roberts,* 291 F. 2d 532, with respect to "letter shops", are, we submit, equally applicable to require reversal of the district court's decision in the instant case. Noting, in *Kentucky Finance,* that "[b]efore 1949 the Administrator, in interpreting the term 'retail or service establishment', then nowhere defined in the statute, had * * * exclud[ed] from the coverage of the exemption personal loan companies and other financial institutions" (359 U.S. at 293), and pointing out that "[w]hen Congress amended the Act in 1949 it provided that the pre-1949 rulings and interpretations by the Administrator should remain in effect unless inconsistent with the statute as amended" (*id.* at 292), the Court said:

> The narrow issue before us, then, is whether Congress in the 1949 amendment of § 13(a)(2) broadened the scope of that section so as to embrace personal loan companies (*ibid.*).

The Court, in answering this question in the negative, explicitly rejected the employer's claim that it was the intent of Congress to exempt any "local" business which could prove it met the enumerated criteria specified by the 1949 amendment (*id.* at 292), stating:

> We find nothing in the debates or reports which suggests that Congress intended by the amendment to broaden the fields of business enterprise to which the exemption would apply. Rather, it was time and again made plain that the amendment was intended to change the prior law *only* by making it possible for business enterprises *otherwise eligible under exist-*

> *ing concepts* to achieve exemption * * *. [359 U.S. at 294, emphasis added.]

This ruling was followed in the *Roberts* decision where this Court, quoting from the lower court's opinion in that case, noted that "where it has been established by pre-amendment [*i.e.,* pre-1949] interpretation that an industry is not retail, unless that classification was due to an application of the business use test,[12] that industry is not now exempt", and pointed out that with respect to such businesses it is not necessary to "reach the point of applying" the percentage tests set forth in the exemptive section (291 F. 2d at 533–534).[13]

These decisions are thus dispositive of the instant case since defendant's business, like "personal loan companies" and "letter shops" was among the categories of business enterprise not "eligible under existing concepts to achieve exemption", as demonstrated not only by the pre-1949 administrative rulings, but also by pre-1949 judicial determination whose continuing vitality was explicitly confirmed in the legislative history of the 1949 amendment.

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[12] As indicated *infra*, pp. 21–23, the non-exempt classification relevant to the instant case did not depend on the fact that sales were made for business uses, but rather upon the non-retail character of establishments primarily engaged in working on industrial equipment.

[13] To similar effect are *Goldberg* v. *Sorvas*, 294 F. 2d 841 (C.A. 3) and *Willmark Service System, Inc.* v. *Wirtz*, 317 F. 2d 486 (C.A. 8), certiorari denied 375 U.S. 897, both holding that "shopping services" engaged in reporting to retail stores on the honesty and efficiency of their clerks are outside the "retail concept"; and *Goldberg* v. *Eagle Maintenance & Supply Co.*, 197 F. Supp. 27 (S.D. Calif., 1961), reaching the same conclusion with respect to an employer furnishing janitorial services to various buildings and industrial concerns.

The nonexempt "pre-amendment status" of defendant's type of business was in fact established by the very same paragraphs of the "pre-1949 rulings and interpretations by the Administrator" relied upon by the Supreme Court in *Kentucky Finance* and by this Court in *Roberts* (1942 Wage and Hour Manual, p. 326 §§ 29–31; see also 359 U.S. at 292, fn. 1, and 291 F. 2d at 534), which listed types of businesses which "are not in the ordinary case sufficiently similar in character to retail establishments" to qualify for exemption under § 13(a)(2). (1942 Wage and Hour Manual, pp. 334–335). The list included, along with "personal loan companies" and "duplicating, addressing, and mailing list establishments", businesses such as "machine shops and foundries", "industrial blacksmiths", "establishments engaged in sharpening and reconditioning industrial tools", "establishments engaged in armature rewinding"—all of which are obviously engaged primarily in furnishing or maintaining the equipment used by others in manufacturing and processing operations, and are thus indistinguishable from the present defendant's enterprise.

The non-exempt status of such businesses involved mainly in working on equipment designed and limited for use by industrial and commercial customers was confirmed by the Supreme Court's holding in *Roland Electrical Co.* v. *Walling,* 320 U.S. 657. The Court there ruled that an enterprise engaged in the closely parallel work of selling and repairing electrical equipment and installing electrical wiring for industrial, commercial, and private customers, could not qualify for the retail exemption since its commercial and in-

dustrial customers were "not 'retail' customers in the same sense as is the customer of the local merchant, local grocer or filling station operator" (326 U.S. at 661, 678).

While Congress in 1949 disapproved the broader implications of the Supreme Court's reasoning in *Roland Electrical,* that "*no* business sale can be classified as a retail sale" (95 Cong. Rec. 14931, 12508), the Supreme Court's *holding* was explicitly approved. Thus, Representative Lesinski, (one of the Managers for the House) explained that reference in the House Managers' Statement to *Roland Electrical* "should not mislead anyone into concluding that the conferees intended to reverse or nullify that decision" (95 Cong. Rec. 14942), and pointed to the following language from the House Report:

> The amendment also does not exempt an establishment engaged in the sale and servicing of manufacturing machinery and manufacturing equipment used in the production of goods, because the sale and servicing of such equipment have never been recognized as retail selling or servicing in the industry which distributes or services that type of equipment. [95 Cong. Rec. 14932]

Similar assurances were given in the Senate where Senator Holland (the main sponsor of the amendment in the Senate) explained that the legislative objection was only to "the dicta" in the *Roland Electrical* opinion, and pointed out that "In that case the business was that of furnishing machinery and repairing and keeping up electrical machinery for a manufacturing enterprise, which involved services which, by their

very nature, are not to be rendered to every Tom, Dick and Harry, but which are available only to and used only by large manufacturers with large investments in factories containing large amounts of electrical equipment" (*ibid.*). And later, in answer to the specific question whether the *Roland Electrical* case would "be decided any differently under the proposed amendment", Senator Holland flatly answered "definitely not" (95 Cong. Rec. 12505). Consistent with Senator Holland's statements was the Senate Conferees' report which stated that the amendment did not change the status of establishments "selling industrial goods and services to manufacturers engaged in the production of goods for interstate commerce and to other industrial and business customers (such as the establishment in *Roland Electrical Co.* v. *Walling* (326 U.S. 657) * * *." [95 Cong. Rec. 14877]

It is therefore clear from the pre-1949 administrative rulings and judicial interpretation that defendant's type of establishment, primarily engaged in producing and repairing equipment used by others in the production of goods for commerce, was not among the "business enterprises otherwise eligible under existing concepts" for whose benefit the 1949 amendment was enacted (*Mitchell* v. *Kentucky Finance Co.*, 359 U.S. at 294), and that such non-exempt status was explicitly confirmed by Congress at the time of such enactment. Accordingly, as in *Kentucky Finance* and *Roberts,* this alone suffices to defeat defendant's claim to exemption, without need to inquire into the specific tests prescribed by the 1949 amendatory language.

2. While the foregoing authorities establish the non-exempt status of defendant's business without the need to consider the other statutory tests, we submit that the district court was also in error with respect to the two "recognition" tests, for on this record defendant plainly failed to sustain its burden of proving both that 75% of its sales "is recognized as retail sales or services in the particular industry", as required by § 13(a)(2), and that its establishment "is recognized as a retail establishment in the particular industry", as required by § 13(a)(4).[14]

Thus, there is no testimony to support the district court's finding that 75% of defendant's sales are recognized as retail sales, for although defendant's witnesses testified that they considered defendant's type of *establishment* to be of a retail nature and that it was so regarded in the industry, none testified that any or all of defendant's sales were recognized as retail in the industry. In particular, there was no testimony that any specified portion of the work performed for the processing companies—which even defendant's president appears to have thought of as distinct from sales to the "general public" (T65), and which, as the record shows, amounted to as much as $180,000 in 1960 to a single customer (A32)—was recognized in the industry as retail sales or services.

[14] These two tests represent, of course, separate and distinct prerequisites to exemption. As the Supreme Court pointed out in *Arnold* v. *Ben Kanowsky, Inc.*, 361 U.S. 388, the conditions of § 13(a)(2) "are explicit prerequisites to exemption, not merely suggested guidelines," and such criteria, "as they are incorporated by reference in § 13(a)(4)" must be met, "as well as the additional requirements of § 13(a)(4) itself" (361 U.S. at 392-393).

Indeed, the only testimony on this point was that of an authority in the field of marketing, Dr. Grathwohl who, applying standard marketing concepts to the sales made to J. R. Simplot Co. and the Shelley Processing Co., concluded that such sales are not recognized as retail (See Statement, *supra*, p. 9).

Thus, as in the *Kanowsky* case, *supra,* "[t]he court below assumed that [defendant's] sales were recognized in the community as retail sales without any evidence to support the fact" (301 U.S. at 388). As the Supreme Court there ruled "This conclusion was not justified, since it is clear that Congress intended that 'any employer who asserts that his establishment is exempt must assume the burden of proving that at least 75 percent of his sales are recognized in his industry as retail' " (*ibid.*).

Recent decisions of the Courts of Appeals, following the *Kanowsky* decision, have emphasized the employer's burden of furnishing specific and precise proof that the exemption's percentage requirements are met. See *Goldberg* v. *Furman Beauty Supply, Inc.,* 300 F. 2d 16 (C.A. 3); *Wirtz* v. *DuMont,* 309 F. 2d 152 (C.A. 4); *Sucrs. de A. Mayol & Co.* v. *Mitchell,* 380 F. 2d 477 (C.A. 1), certiorari denied 364 U.S. 902; *Goldberg* v. *Warren G. Kleban Engineering Corp.,* 303 F. 2d 855 (C.A. 5). In *Furman, supra,* the Third Circuit, referring to the employer's failure to adduce proof that one of its categories of sales was recognized as retail, held that "[t]his deficiency is fatal", since "the statute exacts a requirement turning on a precise percentage of annual sales revenue" (300 F. 2d at 18).

The district court's conclusion that 75% of defendant's sales are regarded as retail is contrary not only to the testimony actually adduced on this issue, but also to the legislative history which plainly shows that in adopting this test, Congress obviously assumed that in no industry would the sale or servicing of equipment used in producing goods for commerce be recognized as retail sales. See discussion, *supra.* pp. 22–23, as well as Senator Holland's statement that "[t]he sale and servicing of manufacturing machinery and manufacturing equipment used in the production of goods is not regarded as retail selling or servicing in the industry which distributes or services that type of equipment" (95 Cong. Rec. 12505).

Defendant's evidence was also inadequate to sustain its burden of proving "plainly and unmistakably" that its establishment is recognized as retail in the industry. The testimony on this score simply represented the subjective and largely self-serving conclusory opinions of its witnesses, unsupported by any showing that the industry had, in some objective, observable manner, treated this type of establishment as retail. The trial court's reliance upon such testimony, to the exclusion of the more objective interpretations of the Administrator and the testimony of plaintiff's well qualified witness, was inconsistent with the repeated disavowal by its sponsors that the "industry recognition" language was intended "to permit each industry to decide for itself whether it was conducting a 'retail or service establishment' within the meaning of the exemption" (*Aetna Finance Co.* v. *Mitchell*, 247 F. 2d 190, 193), and their assurances

that the more objective views of others, and particularly of the Administrator, were to be given weight. (See 95 Cong. Rec. 12501–12502, 12510, 14877, 11116.) Moreover, the inadequacy of defendant's testimony on this score is conclusively demonstrated by the fact that Congress, as we have shown, enacted the "industry recognition" language under the explicit assumption that establishments such as this defendant's would not be recognized as retail in any industry.

CONCLUSION

The judgments below should be reversed, and the cases remanded for the issuance of an injunction in No. 18887, and for entry of judgment in favor of the appellant in No. 18888 in the amount of $500.00 plus costs.

Respectfully submitted.

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JANUARY 1964.

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

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Nos. 18887, 18888

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

W. WILLARD WIRTZ, SECRETARY OF LABOR, UNITED STATES DEPARTMENT OF LABOR, APPELLANT

v.

IDAHO SHEET METAL WORKS, INC., A CORPORATION
APPELLEE

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES
FOR THE DISTRICT OF IDAHO

REPLY BRIEF FOR APPELLANT

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APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES
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REPLY BRIEF FOR APPELLANT

Coverage Issue

1. Despite the stipulated facts showing that 86% of defendant's dollar volume of business during the years here in question consisted of fabrication, installation, maintenance and repair of manufacturing equipment designed especially for factories producing goods for interstate commerce, on which defendant's employees admittedly "during many workweeks * * * spent a substantial part of their total hours" (A31-~~33~~ 39), defendant contends that none of these employees are within the coverage of the Fair Labor Standards Act. Defendant places primary reliance on the Supreme Court's Zachry decision, apparently on the assumption, which the court below also mistakenly made (A54), that the Roland Electrical decision (on facts manifestly far more analogous to, if not indistinguishable from, the facts of the instant case) is no longer authoritative because decided prior to the 1949 Amendment to §3(j). In making

this assumption, defendant, and the court below, have simply ignored the plainly expressed legislative intent in enacting the 1949 Amendment, as well as the express recognition by the Supreme Court in Zachry itself that "illustrations of coverage," which "both reports" (Senate and House) specifically approved, were intended by Congress to remain "unchanged by the amendment" (362 U.S. at 318).

The Roland decision (as we have pointed out in our main brief, pp. 13-15) was specifically approved, by name, in the Senate Report on the 1949 Amendment to the definition of "produced," (95 Cong. Rec. 14874-75), and both the House and Senate reports expressly confirmed the Congressional intent that the amended language would continue to cover employees who, like defendant's in the present case, make, repair or maintain "machinery or tools" used in the production of goods for commerce, or who repair, maintain, improve or enlarge "equipment, or facilities of producers of goods," "whether they are employed by the producer or by an independent employer performing such work on behalf of the producer." 1/

1/ The context of these quoted statements of legislative intent demonstrates their direct pertinence to the case at bar:

> Senate Report [95 Cong. Rec. 14874-75, emphasis added]:
> Typical of the classes of employees whose work is closely related and directly essential to production, within the meaning of section 3(j) as amended by the conference agreement, are the following employees performing tasks necessary to effective productive operations of the producer:
> 1. Office or white-collar workers [citing, inter alia, the Roland Electrical decision].
> 2. Employees repairing, maintaining, improving or enlarging the buildings, equipment, or facilities of producers of goods [citing Roland first, followed by Kirschbaum v. Walling, 316 U.S. 517 and other pre-1949 decisions].
> 3. Plant guards, watchmen, and other employees performing protective or custodial services for producer of goods [citing, inter alia, Walling v. Sondock, 132 F.2d 77, involving an independent watchmen service, along with Walton v. [fn. con'td. on p. 3].

2. Defendant's attempt to distinguish Roland on a factual basis is patently specious and untenable. It is noteworthy that the court below made no pretense of distinguishing the cases factually, but relied simply on the assumption that the 1949 change in statutory language and the Zachry decision superseded Roland and excluded that case and all similar "local business" from the Act's coverage (A54-55). Contrary to defendant's assertions (br. p. 7), Roland's services and supplies were no more "necessary daily or regularly to carry on the work of the interstate commerce producing employer" and were no less "local" and "intermittent" than are defendant's services and supplies. Indeed, the stipulated facts of the instant case provide even a stronger basis

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fn. 1 cont'd.

> Southern Package Corp., 320 U.S. 540, where the watchman was employed by the producer himself; as well as Walling v. Thompson, 65 F.Supp. 686 (S.D. Calif.) upholding coverage of employees of an independent firm engaged in the installation, repair and maintenance of burglar alarm systems leased to a general miscellany of customers, only 7-1/2% of whom were producers of goods for commerce].
>
> The work of such employees is, as a rule, closely related and directly essential to production whether they are employed by the producer of goods or by someone else who has undertaken the performance of particular tasks for the producer.
>
> The work of employees of employers who produce or supply goods or facilities for customers engaged within the same State in the production of other goods for interstate commerce may also be covered as closely related and directly essential to such production. This would be true, for example, of employees engaged in the following activities.
>
> 1. Production of tools, dies, designs, patterns, machinery, machinery parts, mine props, industrial sand, or other equipment used by purchaser in producing goods for interstate commerce [citing Roland along with the Amoskeog Machine Co, Amidon, and Hamner decisions, discussed in our main brief, p. 14].
>
> 2. Producing and supplying fuel, power, water, or other goods for customers using such goods in the production of different goods for interstate commerce [citing this Court's decision in Reynolds v. Salt River Valley Water Users Asso., [fn. cont'd. on p. 4].

for coverage during the "many weeks" in which defendant's employees "spent a substantial part of their total hours" in work for a limited number of producers --continuously during the three to four month "down period" at least--so extensive that it amounted to 86% of defendant's total dollar volume of business. In Roland, the employer had about 1000 miscellaneous active accounts, including "private [as well as] commercial, and industrial" (326 U.S. at 661) and, in contrast to the instant case, only 22% of Roland's total dollar volume of business was attributable to producers of goods for commerce, who numbered 31 of the total of 1000 customers (Roland, record, pp. 10, 12).[2/] Obviously, therefore,

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fn. 1 cont'd.

143 F.2d 863 (C.A. 9), along with several decisions upholding the coverage of employees of "local" utilities serving the general public some of whom were producers for commerce].

House Report [95 Cong. Rec. 14928-29, emphasis added]:

> * * * the proposed changes are not intended to remove from the act maintenance, custodial, and clerical employees of manufacturers, mining companies, and other producers of goods for commerce. Employees engaged in such maintenance, custodial, and clerical work will remain subject to the act, notwithstanding they are employed by an independent employer performing such work on behalf of the manufacturer, mining company, or other producer for commerce. All such employees perform activities that are closely related and directly essential to the production of goods for commerce.
>
> The bill as agreed to in conference also does not affect the coverage under the act of employees who repair or maintain buildings in which goods are produced for commerce (Kirschbaum v. Walling, 316 U.S. 517), or who make, repair, or maintain machinery or tools and dies used in the production of goods for commerce. Likewise, employees of public utilities, furnishing gas, electricity or water to firms within the State engaged in manufacturing, producing, or mining goods for commerce, will remain subject to the Act. All the employees mentioned in this paragraph are doing work that is closely related and directly essential to the production of goods for commerce.

2/ The stipulated facts in Roland contained a breakdown of the transactions with 33 specified customers, which showed that during the ten-months period stipulated as representative, Roland did a total volume of business of $251,833, of which $53,777 was attributable to work performed for the 31 production-for-commerce customers.

Roland's services and supplies to interstate producers must have been much less extensive and more "intermittent" than defendant's in the instant case.

Like defendant here, the Roland Company argued--unsuccessfully in the Supreme Court--that it had all of the indicia of a "local" business which served the general public, describing itself as "simply the modern version of the Village Blacksmith Shop, made famous by Henry Wadsworth Longfellow," and pointing out that it held itself available for the repair of "small electric motors, electric toasters, electric irons and similar appliances" (Roland's br. in No. 45, Oct. Term 1945, pp. 4, 5, 7, 14, 29, 33-34, 43, 48). Compare defendant's description of its business as one having "a background and history of a local establishment inaugurated for the purpose of serving the local needs" (br. 11, 7) and simply the modern "evolution" from the "early tin shops, back at the turn of the Century--1900," which then were all "located in retail hardware stores" (T 71-72). The Supreme Court in Roland, ignoring the district court's characterization of Roland as a "local business" serving "local customers" for "local 'consumption'" (see 54 F.Supp. 733, at 737), held that "the work of [Roland's] employees" for the customers producing goods for commerce was within the Act's coverage because of its "close and immediate tie with the process of production" (326 U.S. at 665, emphasis supplied), and also pointed out that the Act "does not require an employee to be employed exclusively in the specified occupation" (id. at 664, emphasis the Court's). See also Mitchell v. Lublin, McGaughy & Associates, 358 U.S. 207, upholding the Act's "in commerce" coverage of draftsmen and stenographers working on plans and specifications for the repair and construction of interstate facilities, notwithstanding their employment by an independent so-called "local" architectural firm serving a miscellany of customers. The Supreme Court disposed of the employer's contention "that its activities are essentially local in nature" (id. at 213, emphasis the Court's)

by pointing out that "as we stated, Congress deemed the activities of the individual employees, not the employer, the controlling factor in determining the proper application of the Act" (ibid.)--therefore "we focus on the activities of the employees and not on the business of the employer" (id. at 211).

3. Defendant's contention that its employees are not within the Act's coverage because the work for interstate producers is "irregular and intermittent" (br. pp. 5, 9, 11) and "for the most part, rendered during the time the companies * * * are in the so-called 'down period' (about three months per year)" (br. pp. 5, 9, 11) is in essence a direct contradiction of the admitted facts that its employees "during many workweeks * * * spent a substantial part of their total hours worked" in services for interstate producers, to the extent of providing 86% of defendant's income. This Court's decision in Mitchell v. Idaho Lumber Co., Inc., 223 F.2d 836 (C.A. 9), we submit, decisively controverts defendant's contention. In answer to the comparable argument there made that the company's interstate production was for a single contract--"an isolated transaction outside of the ordinary and usual course of defendant's business and operations" --this Court, referring to the well-settled rule that "the applicability of the Fair Labor Standards Act is not to be determined by the nature of the employer's business, but rather by the character of the employee's activities [citing Supreme Court decisions]," reversed the district court's decision and upheld the Act's coverage of the employees during the period they produced goods to fill the single contract. In language directly pertinent here, this Court said:

> While the transaction represented the filling of but one contract, the amount of money involved and the extensive work on the part of the employees who requested the Secretary of Labor to bring this action, plus the fact that the production and fabrication of the goods at appellee's plant covered a period of five months, convinces this Court that the amount involved was "substantial." (223 F.2d at 839).

The same reasoning applies equally here to the "many workweeks" during which the employees admittedly "spent a substantial part of their total hours" fabricating equipment for use in processing goods for commerce. The claim of coverage here, in both the §17 and the §16(c) actions, rests only on those workweeks in which admittedly a substantial part of employees' working time was so spent. Throughout the Act's more than 25 years' existence, the employees' workweek has been the standard for determining his coverage and the amounts due underpaid employees.[3/] This was the basis used to determine the amount of the claim of the employee on whose behalf the §16(c) action (Civil Action No. 3752) was brought, and which underlies the stipulation that, in the event the questions of law (on coverage and exemption) are decided in plaintiff's favor, judgment may be entered in that action for the plaintiff for "$500 plus costs" (A44, ¶9; A42-43).

3/ This has been the standard used administratively since the earliest days of the Act' application [see Interpretative Bulletin No. 5, Wage and Hour Division, United States Department of Labor, originally issued in December 1938, ¶9, 1940 Wage Hour Manual 131] and has been adopted by virtually all of the courts including this Court. As stated in Tobin v. Alstate Const. Co., 195 F.2d 577, 580 (C.A. 3, 1952), affirmed 345 U.S. 13: "* * * As long as any individual employee spends a substantial part of the work-week in commerce or in the production of goods for commerce, he is entitled to the full benefits of the Act."

See also Southern California Freight Lines v. McKeown, 148 F.2d 890 (C.A. 9), certiorari denied 326 U.S. 736, rehearing denied 326 U.S. 808; Mitchell v. Warren Oil Co., 213 F.2d 273 (C.A. 5); Skidmore v. John J. Casale, Inc., 160 F.2d 527 (C.A. 2), certiorari denied 331 U.S. 812; Atlantic Co. v. Weaver, 150 F.2d 843 (C.A. 4); Guess v. Montague, 140 F.2d 500 (C.A. 4); Tobin v. Blue Channel Corp., 198 F.2d 245 (C.A. 4); McComb v. W.E. Wright Co., 168 F.2d 40 (C.A. 6), certiorari denied 335 U.S. 854; Walling v. Crown Overall Mfg. Co., 149 F.2d 152 (C.A. 6); McComb v. Blue Star Auto Stores, 164 F.2d 329 (C.A. 7), certiorari denied 332 U.S. 855; Mid-Continent Petroleum Corp. v. Keen, 157 F.2d 310 (C.A. 8), affirming 63 F.Supp. 120, 137 (N.D. Iowa, 1945); Walling v. Mutual Wholesale Food and Supply Co., 141 F.2d 331 (C.A. 8); Calbeck v. Dairyland Creamery Co., 70 S.D. 382, 17 N.W. 2d 262 (Sup. Ct. S.Dak., 1945).

4. In relying upon the Zachry opinion's "rationale" (br. p. 13), defendant (and the court below) have ignored the wholly different factual situation involved in the instant case, contrary to the express admonition in Zachry that "[n]o niceties in phrasing or formula of words *** could dispense with painstaking appraisal of all the variant elements in the different situations presented by successive cases" (362 U.S. at 315). The expansive interpretation and application of Zachry's rationale, which defendant and the court below advance, is, we submit, plainly mistaken, particularly in view of the closely divided (5 to 4) Court even with respect to the factual situations in Zachry and Callus. In contrast to the work of defendant's employees in the instant case, neither Zachry nor Callus (as pointed out in our main brief, pp. 16-17) involved employees working on or near any operating production facility engaged in manufacturing goods for interstate commerce.

The Zachry majority opinion itself emphasizes and confirms the crucial significance of these contrasting factual differences in determining the Act's coverage under the 1949 amended §3(j), and plainly refutes the view, taken by the court below in the instant case, that the 1949 legislative "purpose of narrowing the coverage of the Act" broadly withdraws from its coverage all "employment in local business" (see op. below, B21). Thus the Supreme Court expressly recognized that the Senate Conferees adopted "most" of the pre-1949 Supreme Court decisions (including Roland, of course, see supra, p. 2), and that "[b]oth reports [i.e. House as well as Senate] use as illustrations of coverage which remains unchanged by the amendment, employment in utilities supplying water to producers of goods for commerce" [citing the references we quote from supra, pp. 2-4, fn. 1]. 362 U.S. at 318. In noting that the House and Senate reports manifested some disagreement, the Supreme Court deduced only that "some restraint on coverage was intended by both" (id. at 317, emphasis added). The

court below has plainly misinterpreted this, we submit, as meaning a degree of restraint on coverage far beyond, and contrary to, the expressed legislative intent of both Senate and House Conferees (see pp. 2-4, supra). As the Court of appeals for the First Circuit, in a recent decision subsequent to Zachry, has stated, in reversing a district court's similarly expansive interpretation of Zachry's "some restraint" reference, "We nowhere find any basis for the district court's enlargement of that characterization to 'generous.'" Mitchell v. Dooley Bros., Inc., 286 F.2d 40, at 43, certiorari denied 366 U.S. 911. It is clear beyond doubt that there is no basis whatsoever for the district court's enlargement of that "some restraint" to the extent of overruling the Roland case (supra, pp. 1-3), which is unquestionably more directly pertinent to the factual situation here than is Zachry or Callus.

It may be noted that the continued authoritative vitality of the Roland coverage decision (in addition to the clear legislative approval of it as evidenced by the 1949 legislative history discussed supra, pp. 2-4) appears to have been recognized by this Court. See General Electric v. Porter, 208 F.2d 805, 810, where this Court upheld the amended Act's coverage of employees hired to protect not only the administrative offices of Hanford Atomic Works (a plant engaged in production of goods for commerce) but also the entire surrounding communities of Richland and North Richland, citing Roland for the proposition that "the Act does not require that an employee be employed exclusively in the particular occupation" (208 F.2d at 810). See also Mitchell v. Anderson, 235 F.2d 638 (C.A. 9, 1955), where this Court reaffirmed "the basis for our own opinion" in General Electric, that "basis" being the Court's construction of the 1949 amendment as intended only "to cut off incidental or fringe coverage," i.e. of "activities not directly contributing to the production of goods" (235 F.2d at 641-642).

Exemption Issue

1. Defendant's contention that by pre-1949 standards (except for the "business use" test), its business was within the "retail concept" rests upon confused misconceptions of the controlling judicial authorities, of the 1949 legislative intent, and of the pre-1949 administrative interpretations. And, even apart from its erroneous characterization of this preliminary question of eligibility as "a preliminary factual determination" (br. p. 20, emphasis added), the "factual" evidence on which defendant relies plainly falls far short of meeting the employer's burden of proof that its business is "plainly and unmistakably within their [the exemptions'] terms and spirit" (see authorities cited in our main brief, p. 18).

(a) It is evident that both defendant and the court below have erroneously assumed that this preliminary question may be determined simply by "factual" evidence of the industry's own opinion of the application of the "retail concept." The error of this assumption has been plainly pointed out by the Supreme Court in Kentucky Finance, and by this Court in Goldberg v. Roberts (discussed in our main brief, pp. 18-20). Kentucky Finance explicitly held that the exemption's "retail concept" did not apply to some businesses "regardless of whether they were thought of in the[ir] industry as engaged in 'retail [services]'" (359 U.S. at 294-295, emphasis added). And this Court in Roberts, supra, carefully drew the distinction between determining the "characterization" of the business (which "does involve factual considerations") and determining whether the type of business was "by [its] nature" inside or outside the exemption's retail concept (which is "one of law"), as follows:

> The characterization of appellees' business as a letter shop does involve factual considerations, but once this determination is made, as it was by the trial court, the issue is one of law: Were letter shops, by pre-1949 standards (other than the "consumer use" standard) considered to be retail businesses? (291 F.2d at 534).

The failure of the court below in the instant case to recognize this distinction is evident on the face of its Findings and Conclusions and of its memorandum opinion. Indeed, the court below made no finding of fact or conclusion of law on this "crucial" preliminary question (see Roberts 291 F.2d at 534). It merely found that "The defendant's establishment is recognized as a retail establishment by the defendant and salesmen within the industry" (fdgs. IX and X, B26). Its opinion is similarly deficient referring only to "the testimony of the manager of defendant corporation and representatives of companies selling materials to defendant" as sufficient to establish that defendant's business "was and is considered to be retail within the industry," and reaching the negative conclusion that "the authorities relied on by plaintiff to establish the contention that defendant is 'not within the retail concept' are distinguishable" (B22)--evidently unmindful of the burden of proof on the defendant-employer to establish every element of his claim to exemption.

As a matter of fact, the findings below do not even identify defendant's industry classification, although that was clearly an issue in controversy, defendant claiming it was just an old-fashioned "tin shop" like those which 60-70 years ago were operated in the "basement" of "a retail hardware store" (T68-76) but admittedly with "marked differences" in size and type of product turned out (T75-76), while plaintiffs in rebuttal adduced considerable evidence (including official standard industrial classification publications and telephone listings and advertisements composed by defendant's own manager, as well as the testimony of an expert on marketing) showing defendant's business to be

classified as "General Sheet Metal Work," "Food Processing Equipment," and under "manufacturers, processors and manufacturing industries" (e.g. T109, 122, Pltfs. Ex. 1, A68-69).

In an apparent attempt to remedy the overt deficiencies in the decision below, defendant argues that "the transcript clearly shows that the industry under consideration is the custom sheet metal and building industry" which "has a traditional concept of being retail in nature," citing the transcript references on the early turn-of-the-century "tin shops" in basements of "retail hardware stores," supra. It was solely on the basis of "that background" (see T72-73) that defendant's witnesses expressed the opinion that defendant's establishment (despite its admittedly "marked differences" in size and type of product and "immensely larger" business e.g. with potato processing plants not even "in existence in those days," T75-76) is considered a retail establishment in the industry. And it is solely on the basis of this evidence that defendant, although it concedes that its establishment is not a "hardware store" (br. p.22), contends that its business by nature has a traditional "retail concept."

The issue here is not whether some obsolete business (albeit the forebear in an evolutionary, and revolutionary, development) is by its nature within the "retail concept" contemplated by this exemption; but whether the business as actually and presently conducted by defendant is an enterprise to which the pre-1949 retail standard (minus the strictly "business use" test) applied. The answer to this question (as the Supreme Court and this Court have made clear) is not to be determined by the industry members, but by reference to pre-1949 administrative and judicial rulings to the extent that Congress evidenced its intent to leave them unchanged.

(b) Defendant's contention that the pre-1949 status of its business was not in any of the categories designated as non-retail by administrative

or judicial rulings, and that any such categories claimed to embrace its business are founded solely on the overruled "business use" test, misapprehends the carefully limited scope of that "overruled" test, and erroneously assumes (as did the trial court, B22) that the Roland "retail" rulings were entirely repudiated.

The legislative history makes it unmistakably clear that the "business use" test of Roland which Congress repudiated was confined to "the dicta" in the Roland opinion--"the sweeping ruling" that "no business sale can be classified as a retail sale" and the extension of "the dicta and references in that direction" (95 Cong. Rec. 14931, 12508, 12497), and was "definitely not" intended to change Roland's holding with respect to "the business involved" there "of furnishing machinery and repairing and keeping up electrical machinery for a manufacturing enterprise, * * *" (id. 12497, 12505). As Senator Holland (the chief sponsor of the Amendment in the Senate) pointed out, the amendatory language was simply intended to make it clear "that a business sale does not necessarily have to be a nonretail sale" (95 Cong. Rec. 12495, emphasis added). As an example of the "kind of interpretation" the amendment was intended "to get away from" he gave the following:

> if a housewife goes to a drygoods store to buy towels, that is a retail sale, but if the proprietor of a small hotel located in a small town, or even a village, goes into the same store, is served by the same clerk, buys the same number of towels, paying exactly the same price, under no circumstances can that sale be regarded as a retail sale, because it is for a business use. [95 Cong. Rec. 12494]

Senator Holland further illustrated the effect of his Amendment as eliminating an interpretation which would result in the sale of a bedroom suit for use in a home being classified as retail, but not the sale, by the same store, of "a modest desk for use in [a] law office" (95 Cong. Rec. 12495).

These examples are in marked contrast to defendant's fabrication and sale of industrial equipment, such as receiving tanks holding 5000 pounds of

potatoes, designed for use in processing plants producing for interstate commerce. That there was no intent to exempt such activity from the scope of the Act is confirmed beyond doubt by both Senate and House Conferrees' Reports which explicitly stated that the amended exemptive language does not "change the status * * * of establishments selling industrial goods and services to manufacturers engaged in the production of goods for interstate commerce and to other industrial and business customers (such as the establishment in Roland Electric Co. v. Walling (326 U.S. 657) * * *" (Senate Report, 95 Cong. Rec. 14877, emphasis added), and "does not exempt an establishment engaged in the sale and servicing of manufacturing machinery and manufacturing equipment used in the production of goods" (House Report, 95 Cong. Rec. 14932). See also quoatations from legislative debates and reports contained in our main brief, pp. 22-23.[4/]

4/ The explicit language of §13(a)(3) further confirms beyond doubt the legislative intent not to exempt sales and services to manufacturers of goods for commerce. That section provided a separate exemption for laundries and linen supply houses if 75% of "such establishment's dollar volume of sales of * * * services is made to customers who are not engaged in a mining, manufacturing, transportation, or communications business." In explaining the purpose of this exemption Senator Holland said it was to remedy "the same distinction under the present law," which he proposed to remedy by amending §13(a)(2)--i.e., the distinction "between work done for families and that done for the little village barbershop, beauty shop, doctor's office, dentist's office, or for any of the other purely local establishments" (95 Cong. Rec. 12503). But he emphatically disavowed any intent to exempt a laundry whose "business involved the serving of interstate carriers," indeed he "invite[d] particular attention at this time to the fact that laundries which have more than 25 percent of their business in the servicing of the Pullman Co., bus lines, or steamship lines, automatically lose their exemption," stating unequivocally that "there is no thought at all, under this amendment of exempting such a business as that,"--that there had been "a good faith effort to extend in no jot or tittle" into such interstate business--and that "large laundries, whose customers consist primarily of interstate businesses * * * will not be exempt" (ibid., emphasis added).

That this was simply a reflection of the legislative intent of the §13(a)(2) amendment was explicitly made clear by Senator Holland's explanation that the §13(a)(3) exemption was designed to give laundries and linen supply houses "the same relief from the Roland decision as the other retail and service establishments" (ibid., emphasis added).

The legislative history thus leaves no room for doubt that the Court below was mistaken in ruling that "the retail concept described in Roland" was entirely "repudiated by the 1949 amendment" (B22). Contrary to this ruling below, Roland's "retail concept," to the extent that it relates specifically to the type of business most closely comparable to defendant's, i.e. supplying "materials and services currently needed for the maintenance of productive machinery used by those who produce goods for interstate commerce" (326 U.S. at 668, 677-678), was definitely approved, and was not encompassed in the overruled "business use test." The Roland opinion demonstrates that the pre-1949 non-retail status of this kind of business was founded on considerations other than the repudiated "business use test"--i.e. it was founded on the basic original legislative purpose to exempt "only such * * * establishments as are comparable to the local merchant * * * who sells to or serves ultimate consumers who are at the end of, or beyond, that 'flow of goods in commerce' which it is the purpose of the Act to reach" (326 U.S. at 666, emphasis added), "the origin of this clause, §13(a)(2), [having] had nothing to do with establishments 'producing goods for [interstate] commerce'" (id. at 667), for "although they [Roland's sales and services to producers for commerce] were to be used and probably ultimately 'consumed' in the hand's of [Roland's] customers, these motors remained actively in use in the production of the 'flow of goods in commerce' [and] it is to this great field of the production of goods for interstate commerce that the Act is directed" (id. at 678).

It is by these same standards--and not simply by the overruled "business use test"--that the pre-1949 non-retail status was ascribed to establishments engaged in fabricating, repairing, reconditioning, or otherwise servicing, industrial processing machinery, equipment and tools, used in the production of goods for interstate commerce. Obviously any establishment

selling or servicing production machinery or equipment for use in manufacturing goods for interstate commerce is also selling or servicing for "business use" in the generic sense. The legislative history of the 1949 Amendments, as well as plain common sense, conclusively establish that Congress did not repudiate the "business use test" in this generic sense.

(c) Defendant's attempt to deny its pre-1949 non-retail status on the ground that it cannot "find any interpretative bulletin or manual wherein the 'custom sheet metal industry' has been determined by the administrator or the court" (br., p. 23), is, we submit, patently without substance, in view of the close analogy of defendant's business to those specifically mentioned in the pre-1949 administrative bulletins, as well as to the business judicially held non-retail in Roland (in 1946)--an analogy "so striking as to be obvious." Cf. Mitchell v. Sorvas, 294 F.2d 841, at 846 (C.A. 3). As pointed out in Sorvas, "clearly the Administrator was not attempting to name every form of * * * business * * *. He was giving illustrations of categories into which this case fits" (ibid.).

Nor were the courts, prior to the 1949 Amendments, deterred from recognizing that the "typical" illustrations mentioned in the administrative bulletin were equally applicable to similar businesses not specifically identified by name. Thus, although renting of building space was not specifically included in the bulletin's list of non-retail service businesses (1942 W.H. Manual, pp. 334-335, §29), the Supreme Court had no hesitation in concluding that this was not the type of service contemplated by the retail exemption. Kirschbaum v. Walling, 316 U.S. 517, 526 (1942). Similarly, Roland's business of installing and repairing electrical wiring, motors and generators was not specifically listed. The Supreme Court, in holding that Roland's business was not retail, relied upon the Administrator's classification as non-retail of "many types of sales

closely comparable to" Roland's sales of "motors, generators and similar equipment to commercial and industrial customers for their use in producing goods for interstate commerce," referring specifically to §29 in which were listed "machine shops and foundries, establishments engaged in sharpening and reconditioning industrial tools, in resistance welding, in armature rewinding * * * companies engaged in repair of business machines, ***." and to the footnote to §11 of the bulletin (326 U.S. at 677), which included among the "types of goods" having "only an industrial or business market" (explicitly noting that they were "merely examples and do not comprise an exhaustive enumeration") "conveyor and hoisting machinery * * * foundry equipment * * * machine tools, mechanical rubber goods (such as belting, packing, gaskets and recoil pads), mill and mine supplies * * * textile machinery and equipment etc." (1942 Wage Hour Manual, p. 329, fn. 6). Manifestly, defendant's fabrication or maintenance and repair of metal tanks, conveyors, buckets, hoods, hoppers, hoisting equipment etc. for food processing plants (which is equipment with a "definitely" limited market, admittedly, T54), are as "closely comparable" to the types of sales and services classified as non-retail in the pre-1949 administrative bulletin as were Roland's sales and services.[5/]

5/ In Sorvas, supra, the Third Circuit made short shrift of the employer's contention (like defendant's here) that the pre-1949 administrative or judicial rulings had not specified the "shopping service" business as non-retail. Noting that, although "prior to 1949 the Administrator had not specifically named 'shopping service' establishments as excluded from the 13(a)(2) exemption," he had, however, listed such "service type businesses" as "'supplying business, financial and statistical reporting data; * * * adjustment and credit bureaus and collection agencies; credit rating agencies; * * * [and] employment agencies,'" which were sufficiently analogous illustrations of categories to fit a "shopping service" establishment (294 F.2d at 846). Accord: Willmark Service System v. Wirtz, 317 F.2d 486, certiorari denied 375 U.S. 897.

In the light of the clearly expressed legislative intent concerning the non-retail status of Roland's sales of "industrial goods and services to manufacturers engaged in the production of goods for interstate commerce," defendant's attempt to deny its pre-1949 non-retail status is, we submit, plainly untenable. As noted above (supra, p. 5) the Roland Company sought to identify its business with the obsolete "Village Blacksmith Shop," just as defendant here attempts to identify its business with the obsolete "tin shop" in a hardware store. In short, defendant's business here is as closely comparable to a business whose non-retail status was settled by a pre-1949 judicial (as well as administrative) ruling (Roland), as was the "letter shop" which this Court held to be outside the retail concept "by pre-1949 standards (other than the 'consumer use' standard)." Roberts, supra, p. 11.

(d) Defendant's reliance on the Taylor Fertilizer and Boisseau decisions of the Fifth Circuit (br., pp. 35-36) serves only to confirm the lack of substance in its claim to exemption. For, as pointed out by the Third Circuit in Sorvas (294 F.2d at 848), both of these decisions have clearly been discredited and stripped of precedent value. Both rested on the mistaken assumption that the 1949 Amendment represented a general expansion of the scope of this exemption--an assumption decisively repudiated by the Supreme Court in the Kentucky Finance and Kanowsky decisions. As pointed out by the Supreme Court in the latter case (361 U.S. at 391-392): "This Court had occasion at the last Term to point out that the 1949 revision does not represent a general broadening of the exemptions contained in §13 [citing Kentucky Finance, 359 U.S. 290, at 294]." The Courts of Appeals in both of these cases --Kentucky Finance, 254 F.2d 8, at 10 (C.A. 6) and Kanowsky, 250 F.2d 47, at 49 (C.A. 5)--had relied heavily on the Boisseau and Taylor decisions, only to

be reversed by the Supreme Court. It may be noted, that the district court in Mitchell v. Roberts, which had relied solely on Boisseau as controlling because Boisseau too had involved a "letter shop" (179 F.Supp. 247), was reversed by this Court (291 F.2d 532).[6/]

Respectfully submitted.

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APRIL 1964

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

6/ Lesser v. Sertner's, the other decision on which defendant relies (br., pp. 28-29)--in addition to being a pre-1949 decision which itself rested on "the type of customer" test--is patently inapposite factually to defendant's business. It suffices to point out that the decision was predicated on the fact that "about 83 percent of its business came from private residences" (166 F.2d at 473-474), i.e. "ultimate consumers who are at the end of, or beyond, that 'flow of goods in commerce' which it is the purpose of the Act to reach." Cf. Roland, supra, pp. 14-15.

No. 18889

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JAMES HENRY MEADOR, JR.,
Appellant,

vs.

UNITED STATES OF AMERICA,
Appellee.

Upon Appeal from the United States District Court
for the District of Arizona

BRIEF FOR APPELLEE

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No. 18889

IN THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

JAMES HENRY MEADOR, JR.,
Appellant,

vs.

UNITED STATES OF AMERICA,
Appellee.

UPON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF ARIZONA

APPELLEE'S BRIEF

JURISDICTIONAL FACTS

Appellee adopts and accepts Appellant's Jurisdictional Facts.

STATEMENT OF FACTS

Appellee adopts and accepts Appellant's Statement of Facts. In addition thereto, Appellee offers the following informational facts.

The Indictment herein charged the Defendant with escape from Federal custody which escape was alleged to have occurred on or about September 17, 1962. The custody of the Marshal, as indicated in the trial, was based on a removal

warrant (Exhibit 4) issued in the District of Nevada, and, pursuant thereto, the Defendant was received by the Marshal for the District of Arizona on August 23, 1962 (Trial Transcript of Proceedings June 3 and June 4, 1963, at P. 18, hereinafter referred to as TT). The Defendant was at that time, and thereafter, awaiting trial in the U. S. District Court for the District of Arizona at Phoenix, Arizona, in Case No. C-16383-Phoenix. Pursuant to Court order in the aforesaid proceeding the Defendant was examined by Dr. Richard E. H. Duisberg on November 27, 1962 (TT 153), who submitted a written report thereof. Thereafter, and on January 7, 1963, a hearing to determine competency was held in Phoenix in the aforesaid Case No. C-16383-Phoenix. Defendant was found competent by the Court. A copy of the report as submitted by Dr. Duisberg and the transcript of the proceedings were both submitted to the trial court in the instant case on April 19, 1963, when the Defendant's motion for examination to determine competency came on for hearing. (Motion Transcript of Proceedings, April 19, 1963, at P. 5, Line 15 et seq; P. 8, Line 17 et seq; P. 20, Line 1 et seq., Motion Transcript hereinafter referred to as MT). On the basis of the aforesaid report and transcript, the trial court denied Defendant's motion for additional examination into his competency (MT P. 21, Lines 1-4).

During the trial of the case the Defendant, through the testimony of a Larry McDaniel, introduced evidence of the Defendant's obstreperous behavior while imprisoned (TT P. 68, Line 3, et seq), his dislike of the facilities (TT P. 69, Line 1 et seq), and other like anti-social behavior. The Defendant was called upon to testify and evidenced an apparent lack of recall of the details of his escape. (TT P. 108, 110, 128, 129, 130). The Defendant also testified to being hazy (TT P. 108), to hearing voices (TT P. 108) and to attempts to commit suicide (TT P. 109). During Defendant's testimony

the Government objected to certain questions and was variously sustained and over-ruled.

At the conclusion of Defendant's case the Government called a psychiatrist, Dr. Tuckler, who had examined Defendant in June, 1962, pursuant to an Arizona Superior Court order (TT 146). Thereafter Dr. Tuckler testified that it was his opinion that the Defendant knew the difference between right and wrong (TT P. 148, Line 5 et seq), that the Defendant took a volitional course and had control of his actions (TT P. 149, Line 12 et seq).

The Government also called Dr. Duisberg to testify who, after being duly qualified as an expert in the field of psychiatry, testified that he, also having been appointed by the Court, the Arizona District Court, had examined the Defendant (TT P. 156). He testified further that the Defendant knew the difference between right and wrong (TT P. 158) and that he was not mentally ill or psychotic (TT P. 163).

The jury, after instruction by the Court, including instructions on the issue of sanity (TT P. 172-173), found the Defendant guilty.

OPPOSITION TO SPECIFICATION OF ERRORS

1. The Court was correct in not ordering the mental examination as applied for by Defendant.

2. The Court correctly applied its discretion in refusing to allow defense counsel unlimited inquiry into facts and details of Defendant's past life.

3. The Court correctly allowed Dr. Tuckler and Dr. Duisberg to testify over the objections going to privilege.

4. The Court correctly allowed Dr. Tuckler and Dr. Duisberg to testify over the objections going to immateriality.

5. In absence of objection and under the circumstances, Dr. Duisberg's testimony was properly received.

6. The Court correctly denied Defendant's motion for a directed verdict of acquittal at the close of all testimony.

SUMMARY OF ARGUMENT

1. In view of the conclusions reached in mental inquiry shortly preceding Defendant's motion herein, there was no "reasonable cause" to believe that there was need for an additional examination.

2. The details of background inquiry are subject to Court's discretion.

3. Examination made for the sole purpose of giving testimony is not subject to physician/patient privilege.

4. Expert testimony on sanity based on psychiatric examination is material to issue of sanity.

5. Defendant may waive objection to testimony containing his statements made during 4244 examination.

6. Substantial legal evidence supported jury's verdict.

ARGUMENT

1. NO REASONABLE CAUSE FOR ADDITIONAL EXAMINATION INTO COMPETENCY

In the instant case, it is necessary that the element of time be clearly set forth in view of its impact on both the trial court and the application of Title 18 United States Code, § 4244. There is, of course, under the statute, no necessity for a hearing into the competency of a defendant unless the

report of the psychiatrist indicates a state of insanity or incompetency. *Formhals v. U. S.,* (CA 9th, 1960) 278 F.2d 43, 47. The examination and report called for by the statute is based upon "*reasonable cause to believe* that a person charged . . . may be presently . . . mentally incompetent" (emphasis added) to understand the proceedings or aid in his defense. Herein, the Defendant was in County jail on August 3, 1962 (TT P. 66, 115), escaped to Nevada with hostages, was returned to Arizona August 23, 1962 (TT P. 18) to face kidnapping charges in District Court at Phoenix (TT P. 67), escaped again (giving rise to the instant case) on September 17, 1962, and was, thereafter, on November 27, 1962, examined by a psychiatrist pursuant to court order made and entered in the Phoenix case. Although the report of the psychiatrist indicated competency, a judicial determination thereof was made January 7, 1963. The kidnapping trial took place in the Phoenix U. S. District Court on March 8, 1963 (TT P. 92).

Defendant's motion for examination into his competency in the instant case came on for hearing April 19, 1963. Thereat, carrying further the Court's statement cited in Appellant's brief (Ap. Br. P. 7) the Court stated:

> ". . . But it's my feeling in the matter that while counsel is in good faith . . . I don't believe that reason for counsel believing that appears either from the motion or what's been presented here this morning, and for that reason the motion is denied." (MT P. 20)

And earlier the Court stated:

> "Well, I don't have a thing in the world right now that would justify me in doing it. I have Dr. Duisberg's report that he is able to assist in his own defense and under the proceedings, or was in January, and to me I just don't see reasonable grounds to or reason to believe that he may be incompetent." (MT P. 17)

At least part of the "reasonable grounds" asserted on behalf of Defendant went to the length of the examination

and was properly disregarded by the Trial Court (MT P. 6, 14, 15).

In *Wear v. U. S.,* (CA D.C., 1954) 218 F.2d 24 cited by Appellant, the Defendant had a history of insanity and had in fact been committed to a state hospital, not the case herein (TT P. 127). The most that *Wear* would require was an examination by a psychiatrist. As to the Defendant, such an examination had been recently conducted as aforesaid and negatived the requirement of a formal hearing. To the same effect is *Krupnick vs. U. S.,* (CA 9th, 1959) 264 F.2d 213, wherein this Court also indicated that the trial court was not required to be blind to surrounding circumstances. *Krupnick v. U. S.,* supra at P. 216. See also *Lebron v. U. S.,* (CA D.C., 1955) 229 F.2d 16.

2. SCOPE OF INSANITY INQUIRY SUBJECT TO COURT'S DISCRETION

The only restriction complained of by Appellant appears to be the sustaining by the Court of the objections by the Government to the questions and answers appearing on page 104 of the trial transcript. The Court in explaining to Defendant's counsel his ruling stated in part:

> "He may testify about his own state of mind, his recollection and all of the matters in connection with the offense charged here. But to go back into something that antidates the occurrences here, and *go into the facts and details of that is improper.*" (TT P. 105, emphasis added).

The remainder of the Corpus Juris section cited by Appellant is as follows:

> "However, the evidence must be relevant and material to the accused's mental condition *at the time of the commission* of the act charged; and to be admissible the evidence must reasonably justify an inference of insanity, *the scope of the inquiry being subject to the discretion of the Court.*"

(*22a C.J.S. Criminal Law § 620* at p. 439-440). To the same general effect see *20 Am. Juris. 324, Evidence § 349.*

It is submitted that the judge's ruling and explanation was designed to concisely convey this general statement of limits and properly did so. There were only two other objections thereafter made by the Government which were sustained by the Court. (TT P. 107, Line 24; TT P. 111). It is submitted that the sustaining of these two objections was proper.

In any event, much detail of Defendant's past life was brought to the attention of the jury, particularly with regard to this relationship of Defendant with Patricia Spaulding. (TT P. 103, 107, 162).

It should also be noted in this regard that the Defendant's "haziness" *commenced* during his incarceration in March, 1962, (TT P. 133) and that he had no provious history of commitment or psychiatric treatment (TT P. 127). Such "commencement", according to the foregoing authorities sets, in general, the beginning point of the scope of inquiry.

3. EXAMINATION FOR TESTIMONIAL PURPOSE NOT PRIVILEGED

Both of the doctors who testified had examined the Defendant solely for the purpose of report as reflected in their testimony and the evidence before the Court (Government's Motion, Ex. No. 1, Jan. 7, 1963, transcript in No. C-16383-Phoenix; TT P. 146, 156). The physician/patient privilege has no application since, as stated in the *Taylor* case:

> "Examination for testimonial purposes only has nothing to do with treatment. A doctor who makes such an examination is not 'attending a patient'. There is no confidential relation between them." *Taylor v. U. S.,* (CA D.C., 1955) 222 F.2d 398, 402.

The status not being one of physician/patient, the doctrine of waiver has no application.

4. EXPERT TESTIMONY ON SANITY BASED ON PSYCHIATRIC EXAMINATION IS MATERIAL TO ISSUE OF SANITY

The Defendant having elicited *lay* testimony calculated to show insanity and thereby "shift the burden" to the Government now seeks to make that burden impossible by objecting to *expert* testimony on the subject as immaterial. The basis for the contention is that the examination was for the specific purpose of determining competency (TT P. 142, 143). This proposition would, it is submitted, go only to the weight and not the admissibility of such evidence. As to both such weight and the propriety of such diagnosis the Court said in *Overholser v. Lynch,* (CA D.C., 1961) 288 F.2d 388, 393:

> ". . . an examination conducted under § 4244 to determine a defendant's competency must be broad enough to include an inquiry into his mental condition at the time the act in question was committed."

Herein both doctors demonstrated by their testimony that they were in a position to testify materially to Defendant's sanity.

5. DEFENDANT WAIVED OBJECTION-ERROR, IF ANY, HARMLESS

It should first be noted that no objection was made or directed to the question or statement (TT P. 159-160) now complained of for the first time on appeal and should not, therefore, be a subject for consideration herein in the absence of plain error. Such potential objection may be waived by not asserting it. *Bailey v. U. S.,* (CA D.C., 1957) 248 F.2d 558, 560.

The testimony was elicited, in any event, not as to the issue of guilt of the accused, but rather to impeach Defend-

ant's testimony (viz: TT P. 110, Lines 6-10; TT P. 129, Lines 17-25) in his alleged failure to recall.

If, however, the Court considers the reception of such evidence as error, it is submitted that it is harmless error. By the time Dr. Duisberg's statement was received, the evidence going to the elements of the escape was substantial and uncontroverted. In effect the only "issue" of guilt remaining at that time was the question of sanity and not the details of the escape as such. The reception of the doctor's testimony in this regard could not have prejudiced the rights of the Defendant.

6. SUBSTANTIAL LEGAL EVIDENCE SUPPORTED JURY'S VERDICT

The Appellant's argument on the sixth specification of error is a necessary concomitant to the Court's ruling on the admissibility of the testimony of the doctors. This Court's ruling of that testimony as admissible necessarily causes the failure of this specification. The jury, with proper instruction as given, had substantial evidence before it to support its verdict.

CONCLUSION

It is submitted that the trial court made proper rulings and the verdict and judgment should be affirmed.

Respectfully submitted,

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I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing Brief is in full compliance with those rules.

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Three copies of within Brief of Appellee mailed this 12 day of November, 1963, to:

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NO. 18890

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

CECILIA E. SOULE, Executrix of the Estate of WALTER N. SOULE, Deceased, Appellant, vs. KAHULUI RAILROAD COMPANY, Appellee.	)

ON APPEAL FROM THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF HAWAII

BRIEF FOR APPELLANT

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Wailuku, Maui, Hawaii

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Cecilia E. Soule, Executrix of the
Estate of Walter N. Soule, Deceased.

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NO. 18890

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

CECILIA E. SOULE, Executrix of the Estate of WALTER N. SOULE, Deceased, Appellant,	)
vs.	)
KAHULUI RAILROAD COMPANY, Appellee.	)

BRIEF FOR APPELLANT

JURISDICTIONAL STATEMENT

This is an interlocutory appeal from an order entered on June 28, 1963, by the United States District Court for the District of Hawaii, in a limitation of liability proceeding in admiralty (46 USC Section 185), which prohibited the joinder of the Kahului Railroad Company, Appellee, as a third party defendant in an action in the Second Circuit Court of the State of Hawaii brought against Soule, Executrix, Appellant. Notice of Appeal was filed on July 12, 1963.

The jurisdiction of this Court to review the order of the District Court rests upon 28 USC Section 1292(a). The jurisdiction of this Court has been determined. Appellee filed a Motion To Dismiss Appeal. After a hearing, the motion was denied.

The jurisdiction of the District Court, if it was empowered to enter the order from which the appeal has been taken, was based on 46 USC Sections 183 and 185, Rule 51 of the Rules of Practice In Admiralty and Maritime Cases, and the facts alleged in the petition of Kahului Railroad Company For Exoneration From or Limitation of Liability. (Rec. pp. 1-12).

STATEMENT OF THE CASE

On May 16, 1962, the tug William Walsh collided with the vessel Hawaiian Educator at the entrance to Kahului Harbor, County of Maui, State of Hawaii. As a result, the William Walsh sank and two of her crew, Walter N. Soule and Nobuyoshi Toyofuku, captain and deck hand, respectively, were killed. Soule and Toyofuku were employed by Kahului Railroad Company.

Kahului Railroad Company, Appellee, owned and operated the tug Walsh. Matson Navigation Company owned and operated the vessel Hawaiian Educator. The casualty occurred within the territorial waters of the State of Hawaii, that is, within one marine league of shore. (46 USC Section 761, "The Death On The High Seas Act").

Toyofuku and Soule were residents of the County of Maui of the State of Hawaii. Kahului Railroad Company is a Hawaii corporation. Kahului Railroad Company operates trucking, stevedoring and harbor facilities at Kahului Harbor on the island of Maui.

Appellant Cecilia E. Soule, Executrix of the Estate of Walter N. Soule, decedent's widow, filed an action in the United States District Court for the District of Hawaii (Civil No. 2103) against the Kahului Railroad Company, her husband's employer, under the "Jones Act" (46 USC Section 688), for the death of her husband. Cecilia E. Soule is a resident of the County of Maui of the State of Hawaii.

Florence Toyofuku, Administratrix of the Estate of Nobuyoshi Toyofuku, and other Toyofuku heirs, filed an action in the Second Circuit Court of the State of Hawaii (Civil No. 406) against Cecilia E. Soule, Executrix, Gordon Wilkinson (an alternate master who was in control of the tug Walsh prior to the collision) and Matson Navigation Company, for the allegedly wrongful death of Nobuyoshi Toyofuku. (Plaintiffs Toyofuku added Matson Navigation Company as a defendant after the entry of the order from which this appeal has been taken.) The Toyofuku action has been brought under the State of Hawaii wrongful death and survival statutes, and under the common law rule, peculiar to Hawaii, which provides a remedy for wrongful death. (Kake v. Horton, 2 H 209 (1860). Sections 246-2 and 246-6, R.L.H., 1955.) The Toyofuku claimants pray for judgment "against defendants or any of them as may be liable in the sum of $350,000." The Toyofuku claimants are residents of the County of Maui of the State of Hawaii

On November 9, 1962, Kahului Railroad Company filed a petition on the admiralty side of the United States Court for the District of Hawaii (Admiralty No. 495) for an order limiting

its liability in respect of the Walsh casualty, under 46 USC Section 185, and obtained an admiralty order enjoining the "filing or prosecution of any suits, actions or libels or proceedings in any Court whatsoever" against it in respect of any claims arising out of the Walsh casualty, except in the limitation proceeding. (Rec. pp. 1-16). Kahului Railroad Company deposited, for the benefit of the Soule and Toyofuku heirs, and any other claimants, the sum of $318 as the limitation fund. (Rec. pp. 15-16).

On December 15, 1962, Soule, Executrix, moved the Court of Admiralty to vacate the injunction prohibiting proceedings in other courts, so that she could proceed with the trial of her "Jones Act" action in the United States District Court for the death of Walter N. Soule. The motion was denied.

On March 15, 1963, Soule, Executrix, moved the Court of Admiralty to determine whether "she can exercise her right under the laws of the State of Hawaii, to defend herself in said action in the Second Circuit Court of the State of Hawaii [the Toyofuku action], by joining petitioner Kahului Railroad Company to such action as a third party defendant pursuant to Rule 14(a) of the Hawaii Rules of Civil Procedure. (Rec. pp. 51-53). Rule 14(a) of the Hawaii Rules of Civil Procedure provides:

> "Before the service of his answer a defendant may move ex parte or, after the service of his answer,

on notice to the plaintiff, for leave as a third-party plaintiff to serve a summons and complaint upon a person not a party to the action who is or may be liable to him or to the plaintiff for all or part of the plaintiff's claim against him. If the motion is granted and the summons and complaint are served, the person so served, hereinafter called the third-party defendant, shall make his defenses as provided in Rule 12 and his counterclaims and cross-claims against the plaintiff, the third-party plaintiff, or any other party as provided in Rule 13. The third-party defendant may assert any defenses which the third-party plaintiff has to the plaintiff's claim. The plaintiff may amend his pleadings to assert against the third-party defendant any claim which the plaintiff might have asserted against the third-party defendant had he been joined originally as a defendant.

A third-party defendant may proceed under this rule against any person not a party to the action who is or may be liable to him or to the third-party plaintiff for all or part of the claim made in the action against the third-party defendant."

Section 246-16, R.L.H., 1955, provides:

"Third party practice, amended complaints, counterclaims and cross-complaints, and motion practice. Before answering, a defendant seeking contribution in a tort action may move ex parte or, after answering, on notice to the plaintiff, for leave as a third-party plaintiff to serve a summons and complaint upon a person not a party to the action who is or may be liable as a joint tort-feasor to him or to the plaintiff for all or part of the plaintiff's claim against him. If the motion is granted and the summons and complaint are served, the person so served hereinafter called the

third-party defendant, shall make his defense to the complaint of the plaintiff and to the third-party complaint in the same manner as defenses are made by an original defendant to an original complaint. The third-party defendant may assert any defenses which the third-party plaintiff has to the plaintiff's claim. The plaintiff shall amend his pleadings to assert against the third-party defendant any claim which the plaintiff might have asserted against the third-party defendant had he been joined originally as a defendant. The third-party defendant is bound by the adjudication of the third-party plaintiff's liability to the plaintiff as well as of his own liability to the plaintiff and to the third-party plaintiff. A third-party defendant may proceed under this section against any person not a party to the action who is or may be liable as a joint tortfeasor to him or to the third-party

plaintiff for all or part of the claim made in the action against the third-party defendant.

"When a counterclaim is asserted against a plaintiff he may cause a third-party to be brought in under circumstances which under this section would entitle a defendant to do so.

"A pleader may either (a) state as a cross-claim against a co-party any claim that the co-party is or may be liable to the cross-claimant for all part of a claim asserted in the action against the cross-claimant; or (b) move for judgment for contribution against any other joint judgment debtor, where in a single action a judgment has been entered against joint tortfeasors one of whom has discharged the judgment by payment or has paid more than his pro rata share thereof. If relief can be obtained as provided in this paragraph no independent action

shall be maintained to enforce the claim for contribution.

"The court may render such judgments, one or more in number, as may be suitable under the provisions of this part.

"As among joint tortfeasors against whom a judgment has been entered in a single action, the provisions of the last paragraph of section 246-11 apply only if the issue of proportionate fault is litigated between them by cross-complaint in that action."

The District Judge held: (1) The admiralty injunction issued in the limitation proceeding prohibited joinder of Kahului Railroad Company as a third party defendant in the Toyofuku action in the state court, and (2) The injunction would not be modified to permit such joinder. This is the order of the District Court from which this appeal has been taken. (Rec. pp. 54-58).

SPECIFICATION OF ERROR RELIED UPON

The District Court erred in refusing to modify the injunction, issued in the admiralty limitation proceeding, which

enjoined the filing or prosecution in any Court whatsoever, except in the limitation proceeding, against either the petitioner [Kahului Railroad Company] or the tug William Walsh in respect of any claims arising out of the Walsh casualty, to permit the joinder of Kahului Railroad Company as a third party defendant, pursuant to the laws of the State of Hawaii, in the action in the Second Circuit Court of the State of Hawaii brought by the Toyofuku claimants against Soule, Executrix, and others, under the State of Hawaii wrongful death and survival statutes and Hawaii common law.

QUESTION PRESENTED

Whether the "Saving To Suitors" clause of 28 USC Section 1333 saves to a defendant his state-created right to join the owner of a vessel as a third party defendant in a wrongful death action pending in a state court, even though the shipowner has petitioner admiralty for an order limiting its liability?

SUMMARY OF ARGUMENT

Soule has a right, under the laws of the State of Hawaii, to implead Kahului Railroad Company as a third party defendant to the Toyofuku wrongful death action brought against her in the Second Circuit Court of the State of Hawaii. Joinder of the shipowner will not infringe upon the power of admiralty to protect the shipowner against any liability in excess of the limitation fund.

The "Saving To Suitors Clause" preserves state authority in local maritime matters. There is a conflict, with respect to the problem before this Court, between the "Saving To Suitors Clause" and the "Limitation Act". This conflict must be resolved by balancing the competing interests.

The State of Hawaii has a substantial interest in maintaining Soule's right, under Rule 14(a) of the Hawaii Rules of Civil Procedure, to defend herself by joining Kahului Railroad Company, the shipowner, to the action in the state courts. Impleader of the shipowner is important to Soule's defense because: (1) The liability of Soule and Kahului Railroad Company is several, not joint; and (2) Soule may lose her right to seek contribution from the Kahului Railroad Company if the shipowner is not joined as a third party defendant in the state action. The liability of Soule and Kahului Railroad Company is several, not joint, because: (1) The duties owed Toyofuku by Soule's decedent, the master (the duty to navigate with care), and Kahului Railroad Company, the shipowner (the duty to provide

a seaworthy vessel) are different in kind; and (2) The relative degrees of fault of the tortfeasors is disproportionate and, under Section 246-11, R.L.H., 1955, each tortfeasor is only liable for the portion of the loss attributable to his relative degree of fault.

Moreover, the subject of the action, wrongful death upon the territorial waters of the State of Hawaii, is a matter entirely regulated by the substantive laws of the State of Hawaii. The procedural law of Hawaii must govern the action.

The shipowner is interested in limiting all the litigation arising out of the casualty to a single forum, the admiralty limitation proceeding. This is not possible to the extent that Soule cannot force the Toyofuku claim into the limitation proceeding.

The interest of the State of Hawaii in affording Soule every opportunity available under the laws of the State of Hawaii to defend herself outweighs the narrow interest of the shipowner in confining the litigation to a single forum.

ARGUMENT

I.

"THE SAVING TO SUITORS CLAUSE" AND THE "LIMITATION ACT" ARE IN CONFLICT, AND THE CONFLICT MUST BE RESOLVED BY BALANCING THE COMPETING INTERESTS.

Kahului Railroad Company, Appellee, owner of the tug Walsh, petitioned admiralty for an order limiting its liability in respect of the claims arising out of the Walsh casualty. The limitation petition was based on the limitation statute. 46 USC Section 185. Admiralty issued an order prohibiting the prosecution of any suits against petitioner in any court except admiralty. The injunction issued pursuant to Rule 51 of the Rule of Practice In Admiralty And Maritime Cases.

Toyofuku and Soule, of the Walsh crew, were killed in the accident. Toyofuku's Administratrix and heirs have sued Soule's Executrix for Toyofuku's death in the courts of the State of Hawaii under the State of Hawaii wrongful death and survival statutes. Sections 246-2 and 246-6, R.L.H., 1955. (The Toyofuku action is also based on the common law rule, peculiar to Hawaii, which permits an action for wrongful death in the absence of a statute. See, The Schooner Robert Lewers Co. v. Kekauoha, 114 F 849 (9th Cir. 1902).)

Rule 14 (a) of the Hawaii Rules of Civil Procedure and Section 246-16, R.L.H., 1955, permit the joinder of "a

person, not a party to the action, who is or may be liable... to the plaintiff for all or a part of the plaintiff's claim against him [principal defendant]". The District Court ruled that Soule's Executrix cannot join Kahului Railroad Company as a third party defendant to the Toyofuku death action in the state courts. Soule's Executrix cannot exercise her state-created rights, under Rule 14(a) of the Hawaii Rules of Civil Procedure, and Section 246-16 R.L.H., 1955, because Kahului Railroad Company, the shipowner, seeks to limit its liability for the Walsh casualty.

The principle of limited liability is not at stake. Cf. Maryland Casualty Co. v. Cushing, 347 U.S. 409,427 (1954), op. by Black, J. Soule does not question the shipowner's right to petition for limitation. And if the shipowner is entitled to limitation, Soule agrees that, even though the state court may enter judgment against Kahului Railroad Company as a third party defendant, the limitation statute will protect the shipowner against any liability in an amount in excess of the limitation fund. Langnes v. Green, 282 U.S. 531 (1931). The authority of the court of admiralty over the limitation proceeding, and admiralty's power to limit the shipowner's liability, is not in any way diminished because the shipowner is joined as a third party defendant in the state action. If the proceedings in the state court should result in the entry of a judgment against the shipowner, as a third party defendant, admiralty has the power to enjoin execution of the judgment pending a final

decision in the limitation proceeding. Ex Parte Green, 286 U.S. 437 (1932).

What is at stake is the right of a citizen of a state to exercise certain state-created procedural rights in an action, pending in a state court, between citizens of the state, that relates to a subject governed by the substantive law of the state, i.e. an action for wrongful death within the territorial waters of the state.

28 USC Section 1333 provides in part:

> "The district courts shall have original jurisdiction, exclusive of the courts of the States, of: (1) Any civil case of admiralty or maritime jurisdiction, saving to suitors in all cases all other remedies to which they are otherwise entitled."

This statute preserves state authority in maritime matters of local concern. Lake Tankers Corp. v. Henn, 354 U.S. 147 (1957). See, Stolz "Pleasure Boating and Admiralty: Erie At Sea", 51 Calif. L. Rev. 661 (1963). 46 USC Section 185 provides in part:

> "Upon compliance with the requirements of this section all claims and proceedings against the owner with respect to the matter in question shall cease."

The statutes are in conflict.

This surface conflict presents another aspect of the recurring and fundamental problem of the proper relation between the states and the federal government over local maritime matters. The United States Supreme Court has recently said that these problems, which reflect the interest of both the states and the federal government in local maritime matters, must be solved by balancing these conflicting interests. Kossick v. United Fruit Co., 365 U.S. 731 (1961). See, Currie "Federalism And The Admiralty", 1960 Supreme Court Review 158.

What are the competing interests in respect of the problem before this Court?

II.

THE STATE OF HAWAII HAS A SUBSTANTIAL INTEREST IN AFFORDING SOULE EVERY OPPORTUNITY AVAILABLE UNDER THE LAWS OF THE STATE OF HAWAII TO DEFEND HERSELF AGAINST THIS ACTION, IN THE COURTS OF HAWAII, FOR WRONGFUL DEATH UPON THE TERRITORIAL WATERS OF THE STATE OF HAWAII.

The State of Hawaii has established rules of procedure (Rule 14(a) of the Hawaii Rules of Civil Procedure) which permit a party to defend himself in the courts of the State of Hawaii by joining persons who are not parties as third party defendants. These liberal rules are remedial.

> "The Rules become effective June 14, 1954. They make the most sweeping reform in our practice and procedure ever undertaken." Anthony, Chairman, Procedural Rules Committee, Foreword To Hawaii Rules of Civil Procedure.

(It should be noted that, although the Hawaii Rules of Civil Procedure are based on the Federal Rules of Civil Procedure, Rule 14(a) of the Hawaii Rules is more comprehensive than Rule 14(a) of the Federal Rules. Rule 14(a) of the Hawaii Rules permits the issuance of a third party summons against a person who may be liable to the principal defendant or to the plaintiff. Cf. 3 Moore, "Federal Practice" (2d.ed. 1963), Secs. 14.10 and 14.11.)

The State of Hawaii has a definite, legitimate interest in affording Soule every opportunity to defend herself, according to the laws of the State of Hawaii, in the action brought against her in the courts of the State of Hawaii. One of her means of defense, under these laws of the State of Hawaii, is the joinder of other tortfeasors, who may be liable to plaintiffs, as third party defendants.

The joinder of Kahului Railroad Company is important to Soule's defense. There are three reasons why such joinder is crucial to the Soule defense in the state courts.

First Soule's liability to the Toyofuku claimants rests on her decedent's alleged failure to properly navigate the tow boat. (Soule was the master.) The liability of Kahului Railroad Company is based on the vessel's unseaworthiness. The duties each owed Toyofuku were entirely dissimilar. The shipowner's breach of its warranty of seaworthiness is unlike Soule's breach of his duty, as master, to navigate the vessel with care. The Osceola, 189 U.S. 158 (1903). Consequently, the two common tortfeasors are not "joint tortfeasors". Each is only liable for his share of the wrong. Compare, Halcyon Lines v. Haenn Ship Corp., 342 U.S. 282 (1952), with Ryan Stevedoring Co. v. Pan-Atlantic Steamship Corp., 350 U.S. 124 (1956). See also, Waterman Co. v. Dugan and McNamara Inc., 364 U.S. 421 (1960). The federal rule has been severely criticized. Gilmore and Black, "The Law Of Admiralty" (1957), pp. 366-374. (The nature of the liability of the two common tortfeasors, the master and the shipowner, that is, whether under these circumstances their liability for the loss is joint or several, is of course a matter to be decided under the law of Hawaii. The Tungus v. Skovgaard, 358 U.S. 588, 71 ALR2d 1280 (1959). Counsel has not discovered a decision of the Hawaii Supreme Court directly in point. Nevertheless, it is inconceivable that Hawaii, with its contribution among tortfeasors statute, would adopt the unsatisfactory "all or nothing" federal approach.)

Since the liability of the two common tortfeasors, the master and the shipowner, is several because the duties each owed Toyofuku were entirely dissimilar, the loss must be apportioned in accordance with their relative degrees of fault. See, 1 Harper and James, "The Law Of Torts" (1956), pp. 701-709. Consequently, if Kahului Railroad Company, the shipowner, is not a party to the action in the state court, Soule may be held liable for the entire loss. Soule's defense in the state courts will be prejudiced if Kahului Railroad Company is not a party to the action.

Second, even though the liability of the two common tortfeasors, the master and the shipowner, is joint, not several, if the fault charged to each is disproportionate, under Section 246-11, R.L.H., 1955, the relative degrees of fault of each must be determined, and each is separately liable for the portion of the loss attributable to his relative degree of fault. Section 246-11, R.L.H., 1955, provides in part:

> "When there is such a disproportion of fault among joint tortfeasors as to render inequitable an equal distribution among them of the common liability by contribution, the relative degrees of fault of the joint tortfeasors shall be considered in determining their pro rata shares."

Section 246-16, R.L.H., 1955, provides in part:

> "The court may render such judgments, one or more in number, as may be

> suitable under the provisions
> of this part"

The Supreme Court of Arkansas has rejected the proposition that, under this uniform contribution statute, each of several tort-feasors is responsible for the entire loss when the fault has been disproportionate.

> "Appellant, who seems to apprehend that two of the judgments are not collectible, may have been apportioned out of most of the recovery to which he is entitled. However, we have not the right to place a construction on the Act at material variance from its purpose. The intent was to permit finders of facts to decide relative responsibility of each tort-feasor and to hold him responsible in that proportion only." Little v. Miles, 213 Ark. 725, 212 SW2d 935 (1948).

(Arkansas, South Dakota and Hawaii are the three states with the entire 1939 Uniform Contribution Among Tort-Feasors Act. The Commissioners have since proposed a different uniform act. Handbook Of The National Conference Of Commissioners On Uniform State Laws (1955), p. 216.) Little has been cited recently with

approval by the Supreme Court of the State of Hawaii. Mitchell v. Branch and Hardy, 45 H 128, 142, 363 P2d 969 (1961). Little marks the path the Supreme Court of Hawaii has taken in interpreting Section 246-11, R.L.H., 1955.

Again, since the liability of the two common tortfeasors, the master and the shipowner is several, under Section 246-11, R.L.H., 1955, if their relative degrees of fault are disproportionate, Soule may be held liable for the entire loss if Kahului Railroad Company, the shipowner, is not a party to the action. Joinder of the shipowner as a third party defendant is essential to Soule's defense of the Toyofuku action in the courts of the State of Hawaii.

(Many of the issues before the Court in this case relate to difficult unresolved questions of Hawaii law. Under these circumstances, the District Judge should have abstained. Joinder of the shipowner should have been permitted, and the limitation proceeding held by admiralty until the parties obtained a decision from the courts of Hawaii on these questions of Hawaii law. Cf. Louisiana Power and Light Co. v. City of Thibodaux, 360 U.S. 25 (1959).)

Third, if Soule cannot make Kahului Railroad Company a third party defendant to the pending Toyofuku action, she may lose her right to compel the shipowner to contribute to the Toyofuku loss. Section 246-16, R.L.H., 1955, provides in part:

"A pleader may either (a) state as a cross-claim against a co-party any claim that the co-party is or may be liable to the cross-claimant for all part of a claim asserted in the action against the cross-claimant; or (b) move for judgment for contribution against any other joint judgment debtor, where in a single action a judgment has been entered against joint tortfeasors one of whom has discharged the judgment by payment or has paid more than his pro rata share thereof. <u>If relief can be obtained as provided in this paragraph no independent action shall be maintained to enforce the claim for contribution</u>." (Emphasis Added)

Thus, Soule may lose her right, under the laws of the State of Hawaii, to require the shipowner to contribute to the loss, even though admiralty may ultimately decide that the shipowner is not entitled to limitation. The District Judge discounted this problem. The Court said:

> "... [I]f a judgment is obtained against the moving claimant in the state court action, she can obtain contribution from petitioner, if she is entitled to such contribution, in this Court as a Court of Admiralty if its petition is granted." (Rec. pp. 58-59).

The District Judge erred, for admiralty does not recognize a right of contribution among tortfeasors. Halcyon Lines v. Haenn Ship Corp., 342 U.S. 282 (1952).

The State of Hawaii has made available to defendants sued in the courts of the State of Hawaii the procedural right to join other persons, who may be liable to plaintiffs, as third party defendants to the action. This procedural right is important to Soule in the defense of the Toyofuku claims against her. The State of Hawaii has a real interest in affording Soule every opportunity to defend herself in the courts of the State of Hawaii. The problem is of particular concern to the state, for the subject of the suit is a matter regulated by the laws of the State of Hawaii.

The Toyofuku action against Soule is based on Toyofuku's wrongful death within the territorial waters of the State of Hawaii. There is no federal cause of action for death upon the territorial waters of a state. The right to recover for death upon the territorial waters of the State of Hawaii is entirely

regulated by the laws of the State of Hawaii. The Tunqus v. Skovgaard, 358 U.S. 588, 71 ALR2d 1280, (1959); Just v. Chambers, 312 U.S. 383 (1941).

The subject of the Toyofuku action in the state courts, wrongful death within the territorial waters of the state, is a matter of local concern. Western Fuel Co. v. Garcia, 257 U.S. 233 (1921). When the courts of Hawaii entertain an action for wrongful death upon the territorial waters of the state, they do not simply enforce a "federal common law" created by federal statute and supplemented by federal case law. Compare, Textile Workers v. Lincoln Mills, 353 U.S. 448 (1957). The Toyofuku death claims are governed by the substantive law of the State of Hawaii. The Schooner Robert Lewers Co. v. Kekauoha, 114 F 849 (9th Cir. 1902). The suit on these claims should be governed by the procedural law of the State of Hawaii. The State of Hawaii has a substantial interest in the conduct of litigation in its courts, which relates to its peculiar substantive laws, in accordance with the procedural laws of the State of Hawaii. The outcome of a suit in the courts of the State of Hawaii, to be decided under the substantive law of the State of Hawaii, should certainly not be determined by restrictions imposed by a federal court upon a procedural right provided by the State of Hawaii. Cf. Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938), and Guaranty Trust Co. of New York v. York, 326 U.S. 99, 160 ALR 1231 (1945).

These, then, are the interests of the State of Hawaii with respect to the problem before this Court. What are the competing interests?

III.

THE INTEREST OF THE STATE OF HAWAII IN AFFORDING SOULE EVERY OPPORTUNITY AVAILABLE UNDER THE LAWS OF THE STATE OF HAWAII TO DEFEND HERSELF IN THE STATE COURTS OUTWEIGHS THE INTEREST OF THE SHIPOWNER IN CONFINING THE LITIGATION TO A SINGLE FORUM.

"Concursus" has been the principal argument of the shipowner to justify the prohibition against joinder of the shipowner as a third party defendant in the state suit. All of the claims arising out of the maritime casualty, the shipowner says, should be brought into admiralty and disposed of in the limitation proceeding. Gilmore and Black, The Law of Admiralty (1957) Sec. 10-17, pp. 688-689. Rule 51 of the Admiralty Rules, which permits the issuance of admiralty injunctions prohibiting the prosecution of suits against shipowners who seek limitation should be liberally interpreted, the argument runs, for the injunction issued in an admiralty limitation proceeding promotes concursus.

But concursus is impossible in this case. Soule cannot force the Toyofuku claimants to transfer their claims from the state courts to the admiralty limitation proceeding. Congress has not provided for the removal of an action based on a state wrongful death statute from the state courts to an admiralty limitation proceeding. Grundel v. Union Iron Works, 127 Cal. 438, 59 P 826 (1900). Soule cannot obtain an order in admiralty, under Admiralty Rule 51, enjoining the prosecution of the Toyofuku action in the courts of the State of Hawaii, for the Toyofuku claims against Soule are not, as required by Rule 51, subject to "limitation in the proceeding".

If the removal of the Toyofuku claims from the state court to the admiralty proceeding were possible, the problem Soule faces would not exist. If removal were possible, admiralty would be able to finally adjudicate all of the issues with respect to liability and all of the various claims in the limitation proceeding. Concursus would exist under these conditions.

But these conditions do not exist, and there is no real concursus. Since admiralty lacks the power to control the Toyofuku action in the courts of the State of Hawaii, admiralty should not interfere with Soule's defense of the action in the state courts. Moreover, admiralty should permit the joinder of the shipowner as a third party defendant, since the shipowner's ultimate right to limit liability will not be jeopardized.

The shipowner has also argued that it will be subjected to multiple suits if it is forced into the Toyofuku action as a third party defendant. But the limitation statute was not designed to protect shipowners against multiple suits. The United States Supreme Court said in Lake Tankers Corp. v. Henn, 354 U.S. 147, 153 (1957):

> "The state proceeding could have no possible effect on the petitioner's claim for limited liability in the admiralty court and the provisions of the Act, therefore, do not control. It follows that there can be no reason why a shipowner, under such conditions, should be treated any more favorably than an airline, bus, or railroad company. None of them can force a damage claimant to trial without a jury. They, too, must suffer a multiplicity of suits."

Moreover, Kahului Railroad Company is a Hawaii corporation whose principal activities are confined to the port of Kahului on the island of Maui. There might be some federal interest in prohibiting the joinder of a foreign corporation, with multi-state operations, to a wrongful death action pending in the courts of the State of Hawaii. But this consideration does not

exist in this case. The Second Circuit Court of the State of Hawaii is not an inhospitable forum for the Kahului Railroad Company.

What, then, are the competing interests which are in the balance?

The State of Hawaii has a real and substantial interest in affording litigants in its courts an opportunity to defend themselves by impleader (third party practice), under the existing procedural law of the State of Hawaii. This interest is acute when the subject of the action is a matter, wrongful death upon the territorial waters of the state, governed by the substantive law of the State of Hawaii. On the other hand, the shipowner is interested in limiting the litigation arising out of the casualty to a single forum, that is, the limitation proceeding in admiralty.

The interest of the State of Hawaii in affording Soule every opportunity available under the laws of the State of Hawaii to defend herself against the Toyofuku action certainly outweighs the narrow interest of the shipowner in confining the litigation to a single forum.

CONCLUSION

The pendency of the limitation proceeding does not preclude joinder of Kahului Railroad Company, the shipowner, as a third party defendant to the wrongful death action brought by the Toyofuku claimants against Soule in the courts of the State of Hawaii.

The "Saving To Suitors Clause" and the "Limitation Act" are in conflict. This conflict over a local maritime matter must be determined by balancing the competing interests.

Soule has a right, under the procedural laws of the State of Hawaii, to implead the shipowner. The exercise of this procedural right may well determine the outcome of the case in the state court. Joinder of the shipowner is essential to Soule's defense.

The action in the state courts, which arises out of a wrongful death upon the territorial waters of the state, is governed by the substantive law of the State of Hawaii. The action relates to a maritime matter of local significance.

The interest of the State of Hawaii in affording Soule every opportunity available under the laws of the State of Hawaii to defend herself outweighs the narrow interest of the shipowner in confining the litigation arising out of the casualty to a single forum. The order of the District Court, from which this appeal has been taken, should be reversed.

Dated at Wailuku, Maui, Hawaii, this 9th day of December, 1963.

Respectfully submitted,

William F. Crockett

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I CERTIFY THAT, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full complaince with those rules.

William F. Crockett

No. 18,890

United States Court of Appeals

For the Ninth Circuit

Cecilia E. Soule, Executrix of the Estate of Walter N. Soule, Deceased,
Appellant,

vs.

Kahului Railroad Company, a corporation,
Appellee.

APPELLEE'S ANSWERING BRIEF

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No. 18,890

United States Court of Appeals

For the Ninth Circuit

CECILIA E. SOULE, Executrix of the Estate of Walter N. Soule, Deceased, *Appellant*, vs. KAHULUI RAILROAD COMPANY, a corporation, *Appellee*.	

APPELLEE'S ANSWERING BRIEF

INTRODUCTION

Appellant has appealed from the District Court's denial of her motion for "construction" of the injunction entered by the District Court pursuant to the statutes and Supreme Court Admiralty Rules relating to limitation of shipowner's liability. Appellant now contends that her motion was not for construction of the injunction but for modification of it. She seeks to modify the injunction to allow her to implead appellee shipowner as a third party defendant in a suit against appellant now pending in the courts of the State of Hawaii. Apparently it is conceded that the injunction in its existing form prohibits such action.

This appeal is from the denial of the second of two motions filed by appellant in the District Court. On De-

cember 17, 1962, appellant moved the District Court to vacate the injunction to allow her to maintain, outside the limitation proceeding, an action under the Jones Act for the death of Captain Soule (Tr. p. 25). This motion was denied on February 15, 1963, by Judge Tavares of the District Court at the same time he denied a motion by the Toyofuku claimants for permission to proceed against appellee outside the limitation action (Tr. pp. 46 and 50). Exactly one month later, appellant filed the motion which is the subject of this appeal (Tr. p. 51).

It is clear from appellant's brief that she now seeks to allow the Toyofuku claimants to proceed against appellee outside of the limitation action. No sound reason has been advanced why appellant can do for the Toyofuku claimants what they cannot do for themselves.

One would think from appellant's discussion that this Court is faced with a new and novel issue on which there are no applicable statutes and no established case law. Appellant treats her appeal as one requiring this Court to venture into uncharted waters and to make law in a new field devoid of statutory or case authority. The only navigational aid offered to the Court is a scale upon which the Court is supposed to weigh the interests of appellee on the one side and the supposed interests of appellant and the State of Hawaii on the other.

Contrary to appellant's argument, this case is directly and specifically covered by statute, by the Supreme Court Admiralty Rules, and by an unbroken line of cases going back to the last century. In limitation cases where there is more than one claim and the total of such claims ex-

ceeds the limitation fund, the jurisdiction of the admiralty court is exclusive, and the shipowner is entitled to an injunction against any suits or proceedings outside of the limitation action.

Appellant is guilty of more than merely ignoring the unanimous weight of authority against her contentions. She is absolutely wrong in the two basic assumptions or premises upon which she bases her entire argument regarding the balancing of interests.

First: Neither the Toyofuku claimants nor appellant can assert a cause of action for wrongful death against appellee based upon the Hawaiian law or upon the general maritime doctrine of unseaworthiness. *The Jones Act (46 U.S.C. Section 688) provides the only remedy against an employer for the alleged wrongful death of a seaman.*

Second: The substantive law of Hawaii has no application whatsoever to claims against appellee for the deaths of Captain Soule and Mr. Toyofuku.

JURISDICTIONAL STATEMENT

On September 19, 1963, appellee moved the Court to dismiss this appeal on the ground that the appeal was not within the jurisdiction of the Court. Appellee's motion was denied by the Court on October 28, 1963.

The jurisdiction of the District Court to make the order appealed from is based on 46 *U.S.C.* Section 185 and the *Supreme Court Admiralty Rules,* including Rule 51.

STATEMENT OF THE CASE

Appellant's statement of the facts out of which this appeal arises is substantially correct for the purposes of this appeal. Appellee will not urge corrections which will not affect the issues involved in the appeal, even though such matters may be important upon trial of the case. Appellee would, however, offer the following additions and corrections to appellant's statement:

1. Appellee has not, and does not, concede any responsibility or liability for losses arising out of the casualty of May 11, 1962. Appellee's petition in the District Court asks for exoneration from liability or, in the alternative, limitation of liability if the Court finds it is liable at all (Tr. p. 1).

2. Three claims totaling more than $650,000.00 have been filed in the limitation case in the District Court. These claims are as follows:

Claim of appellant Cecilia E. Soule (Tr. p. 23) $300,000.00;

Claim of Florence Toyofuku (Tr. p. 17) $350,000.00;

Claim of Matson Navigation Company in an unspecified amount for indemnity and/or contribution against suits filed against it arising out of the casualty. Matson's claim alleged that suits filed against it totaled $1,400,000.00 at the time the claim was filed (Tr. p. 33).

ARGUMENT

I.

THE DISTRICT COURT, SITTING AS A COURT OF ADMIRALTY, HAS EXCLUSIVE JURISDICTION OF CLAIMS AGAINST APPELLEE KAHULUI RAILROAD COMPANY ARISING OUT OF THE SINKING OF THE WILLIAM WALSH.

A. The Procedure in Limitation of Liability Cases Is Set by the Limitation Statutes and Supreme Court Admiralty Rules.

The United States has had limitation of liability statutes in substantially the same form since 1851. These statutes and the Supreme Court Admiralty Rules which implement them have two basic purposes:

(1) To limit a shipowner's liability arising out of a maritime casualty or disaster to the value of the vessel after the casualty or disaster, together with freights earned on the voyage.

(2) To provide for a single admiralty proceeding in which:

(a) The amount of the limitation fund is determined;

(b) The shipowner's liability, if any, is determined;

(c) The shipowner's right to limitation of liability is determined;

(d) The limitation fund may be apportioned among the various claimants if liability is found and limitation granted.

46 *U.S.C.* Sections 183, 184, 185;

Supreme Court Admiralty Rules 51, 52;

The Quarrington Court, 102 F. 2d 916 (2d Cir. 1939) cert. den. 307 U.S. 645, 83 L. Ed. 1525.

> "The statutory provision for limitation of liability . . . has been broadly and liberally construed in order to achieve its purpose to encourage investments in shipbuilding and to afford an opportunity for the determination of claims against the vessel and its owner." *Just v. Chambers,* 312 U.S. 383, 385, 85 L. Ed. 903, 905 (1941)

It is apparent that the purposes of the limitation of liability statutes cannot be attained in the standard (multiple claim-inadequate fund) limitation situation unless all claims against the shipowner are brought together in one action.

> "If an admiralty court in a multiple-claims-inadequate-fund case may permit the claimants first to try the issue of liability vel non and damages in every claim in court actions outside of the limitation proceeding during which time the limitation case will be in a suspensive state of limbo, there will be little, if anything, left of the statutory scheme created by Congress and implemented by Admiralty Rules contemplated in the statutes." *Pershing Auto Rentals, Inc. v. Gaffney,* 279 F. 2d 546, 549-550 (5th Cir. 1960)

For this reason, Congress has specifically provided that, when the shipowner properly invokes the benefit of the limitation statutes by filing his petition in the District Court, actions or proceedings against him outside the limitation case must cease. The last sentence of 46 *U.S.C.* Section 185 reads:

> "Upon compliance with the requirements of this section, all claims and proceedings against the owner with respect to the matter in question shall cease."

Section 185 is clear enough, but Supreme Court Admiralty Rule 51 goes further to insure that all claims against the shipowner be localized in the limitation action. After setting forth in detail the form of petition to be filed, notices to be given, etc., Rule 51, in its last paragraph, provides for the issuance of an injunction by the District Court—an injunction against the prosecution of any suit against the shipowner outside of the limitation action. The portion of Rule 51 referred to reads as follows:

> "The said court shall also, on the application of the petitioner, make an order to restrain the further prosecution of all and any suit or suits against the petitioner and/or said vessel in respect to any claim or claims subject to limitation in the proceeding."

The limitation of liability statutes are constitutional. *Hartford Accident & Indemnity Co. v. Southern P. Co.*, 273 U.S. 207, 71 L. Ed. 612 (1927). The Supreme Court held, as early as 1872, that limitation of liability cases are within the jurisdiction of the District Court in admiralty. *Norwich & N.Y. Transp. Co. v. Wright*, 80 U.S. (13 Wall.) 104, 20 L. Ed. 585 (1872).

B. The Jurisdiction of the Admiralty Court Is Exclusive in the Standard Limitation Case.

Appellee knows of no case holding that a claimant may assert a claim against a shipowner outside the limitation action in the standard (multiple claim-inadequate fund) limitation situation. Appellant has not cited such a case in the District Court or in her brief. The cases are unanimous in holding that claimants must come into the limitation proceeding and assert their claims there. Among the many cases so holding are:

Metropolitan Redwood Lumber Co. v. Doe, 223 U.S. 365, 56 L. Ed. 473 (1912), where the Supreme Court said at page 372:

"The appellant, owner of The San Pedro, appears to have proceeded strictly in compliance with the fifty-fourth admiralty rule [now Admiralty Rule 51]. There was a due appraisement of The San Pedro and her pending freight, and a stipulation entered into, with sureties, for the value so appraised, and monition duly issued, requiring all persons to present their claims and make proof. In that situation, the jurisdiction of the court to hear and determine every claim in that proceeding became exclusive. It was then the duty of every other court, Federal or State, to stop all further proceedings in separate suits upon claims to which the limited liability act applied."

The Quarrington Court, 102 F. 2d 916 (2d Cir., 1939) cert. den. 307 U.S. 645, 83 L. Ed. 1525. At page 918 the Court said:

"The purpose of a limitation proceeding is not merely to limit liability but to bring all claims into concourse and settle every dispute in one action."

Pershing Auto Rentals, Inc. v. Gaffney, 279 F. 2d 546 (5th Cir. 1960)

Petition of Trinidad Corp., 229 F. 2d 423 (2d Cir. 1955) in which the following statement appears at page 428:

"It is, of course, true that in limitation cases in which the sum total of damages as liquidated may exceed the fund available for the payment of claims, the concourse of all claimants in the limitation proceed-

ing is a technique indispensable to the statutory objective, viz., a marshalling of claims.''

Petition of Tracy, 86 F. Supp. 306 (D.C., E.D.N.Y. 1949)

Needless to say, the instant case is one involving the standard limitation situation of multiple claims and an inadequate fund. Three claims have been filed for a total of more than $650,000.00 (Tr. p. 42). The limitation fund is $318.00 (Tr. pp. 11-12, 15).

C. The Limitation Statutes Prevail Over the Savings to Suitors Clause in the Standard Limitation Situation.

Appellant bases her entire argument on the savings to suitors clause of 28 *U.S.C.* Section 1333. Her reliance on Section 1333 is without merit for a number of reasons.

In the first place, Section 1333 saves ''remedies'' not ''rights''. Neither appellant nor the Toyofuku claimants have any common law ''rights'' against appellee, and Section 1333 wouldn't save such ''rights'' if they existed. This subject will be discussed at greater length in subsequent sections of appellee's brief.

Secondly, the authorities are clear that the limitation of liability statutes and procedures prevail over the savings clause in the standard limitation situation. It is elementary that this is true—every limitation case tried results in the claimants being deprived of an opportunity to assert their claims outside the admiralty court. In Gilmore and Black, *The Law of Admiralty*, 1957, the authors address themselves to this situation at pages 687 and 688 (Sections 10-16 and 10-17):

(Sec. 10-16) "The last sentence of Section 185 provides that on compliance with its requirements (i.e. filing a petition within the six months period together with paying into court or posting a bond for the value of the ship or transferring the ship to a trustee) 'all claims and proceedings against the owner with respect to the matter in question shall cease.' Section 1333 of the Judicial Code confers upon the District Courts exclusive original jurisdiction of any civil case of admiralty or maritime jurisdiction 'saving to suitors in all cases all other remedies to which they are otherwise entitled.' The two provisions are in obvious conflict. On the whole the policy of the Limitation Act has prevailed, so that in most limitation situations the 'suitors' are in fact deprived of their choice of forum."

(Sec. 10-17) "The case law admits the owner's right to localize proceedings in the standard limitation situation: a multiplicity of claims, usually resulting from a maritime catastrophe, which in the aggregate clearly exceed the liability of the owner under the Limitation Act. In that situation, the admiralty court, on the filing of the petition and compliance with the provisions for a limitation fund, will enjoin the continuance of any pending actions against the owner as well as the institution of any new actions. Claimants are required to make proof of claim in the limitation proceeding and to litigate their rights in that proceeding."

Appellant has cited three cases where claimants were allowed to pursue their claims outside the limitation proceedings. None involves the standard limitation situation—a fact appellant completely overlooks.

The Green decisions (*Ex Parte Green*, 286 U.S. 437, 76 L. Ed. 1212 (1932) and *Langnes v. Green*, 282 U.S. 531, 75 L. Ed. 520 (1931)) were actually rendered in one case. The important point in the case is that there was but *one* claim—there were not multiple claimants. In the course of its opinion in *Langnes v. Green*, the Supreme Court noted that the state court remedy must be denied in the standard limitation situation.

Lake Tankers Corp. v. Henn, 354 U.S. 147, 1 L. Ed. 2d 1246 (1957) is not really a limitation case at all. There the claimants reduced their claims so that the total of all claims was *less than the limitation fund.* But once again the Supreme Court pointed out that the result would be different—claimants would not be allowed to pursue their claims outside the limitation proceedings—where there were multiple claims and a fund not large enough to pay all in full. At pages 151 and 152 the Supreme Court said:

> "It is, therefore, crystal clear that the operation of the Act is directed at misfortunes at sea where the losses incurred exceed the value of the vessel and the pending freight. And as is pointed out in British Transport Co. (U.S.) supra, where the fund created pursuant to the Act is inadequate to cover all damages and the owner has sought the protection of the Act, the issues arising from the disaster could be litigated within the limitation proceeding. Otherwise the purpose of the Act, i.e., limitation of the owner's liability, might be frustrated. Only in this manner may there be a marshalling of all of the statutory assets remaining after the disaster and a concourse of claimants."

II.

APPELLEE'S LIABILITY, IF ANY, IS NOT DETERMINED BY THE LAW OF HAWAII.

Appellant is not content with ignoring the host of cases which support the action of Judge Tavares in denying her motion. In order to give some semblance of logic to her argument, she misapplies the savings clause and repeatedly misstates the law applicable to suits against an employer for the death of a seaman. Time after time appellant refers to the Hawaiian wrongful death statutes; time after time she speaks of the substantive law of Hawaii. These statements and references are absolutely irrelevant. Captain Soule and Mr. Toyofuku were seaman (Tr. pp. 17 and 23). Actions for their deaths against appellee, their employer, are governed by federal law, not state law. The Hawaiian wrongful death statutes and the laws of Hawaii dealing with contribution between tort feasors are wholly inapplicable and immaterial.

A. The Jones Act Is the Exclusive Remedy Against the Employer for Death of a Seaman.

The Jones Act (46 *U.S.C.* Section 688), passed by Congress in 1920, gives certain heirs of a deceased seaman a cause of action for negligence against the employer. This cause of action is exclusive and provides the only cause of action for wrongful death against the seaman's employer. There is no cause of action against the employer based upon the doctrine of unseaworthiness, and no cause of action can be stated on the state death statutes. Norris, *The Law of Seamen*, 2d Ed. (1962), p. 813, Sec. 668.

> "It is plain that the Merchant Marine Act is one of general application intended to bring about the

uniformity in the exercise of admiralty jurisdiction required by the Constitution, and necessarily supersedes the application of the death statutes of the several states.'' *Lingren v. United States*, 281 U.S. 38, 44, 74 L. Ed. 686, 691 (1930)

''Since the Jones Act withholds any action for death due to unseaworthiness and prevents the assertion of any such right of action under state law, no means of recovery for death due to unseaworthiness is available to the seaman's representative under federal or state law.'' *Bath v. Sargent Line Corp.,* 166 F. Supp. 311, 312 (D.C., S.D.N.Y. 1958)

Appellant cites a number of cases which she believes support her theory that the Soule and/or Toyofuku claimants may assert a claim against appellee for wrongful death based on the laws of the state of Hawaii. But not one of these cases is authority for that proposition. Not one of the cases cited involves a claim against an employer for death of a seaman occurring since the passage of the Jones Act in 1920.

The Schooner Robert Lewers Co. v. Kekauoha, 114 F. 849 (9th Cir., 1902) cited on pages 13 and 24 of appellant's brief involved a truckman killed on a dock. It did not involve a seaman and the death occurred before passage of the Jones Act.

The Tungus v. Skovgaard, 358 U.S. 588, 3 L. Ed. 2d 524 (1959) cited on pages 18 and 24 of appellant's brief involved a suit against a shipowner by the administratrix of the employee of a terminal operator. The deceased was not a seaman, hence was not covered by the Jones Act.

Just v. Chambers, 312 U.S. 383, 85 L. Ed. 903 (1941) cited at brief, page 24, did not involve claims for wrongful death at all. There the issue was the survival of personal injury actions against a deceased shipowner, a matter not involved with the Jones Act at all.

Western Fuel Co. v. Garcia, 257 U.S. 233, 66 L. Ed. 210 (1921) cited at brief, page 24, was an action for the death of a stevedore—not a seaman.

Appellant is absolutely wrong in asserting that she or the Toyofuku claimants has a cause of action against appellee based on the law of Hawaii. Congress has preempted the field in the area of actions against the employer for death of a seaman. The Jones Act provides the only basis for such a cause of action.

Lingren v. United States, supra.
Bath v. Sargent Line Corp., supra.

B. The Substantive Law of Hawaii Has No Application.

The rights and liabilities of appellee as shipowner-employer on the one hand and the Soule and Toyofuku claimants on the other cannot be affected by the substantive law of Hawaii. Appellant apparently believes otherwise. One cannot tell from her brief whether this mistake is due to a failure to appreciate that the Jones Act provides the only cause of action against the employer for wrongful death of a seaman (discussed above), or a misunderstanding of the savings to suitors' clause or both.

One only need read the savings to suitors' clause to see that "remedies" are saved, not "rights." Furthermore, it is firmly established that, when a maritime cause of

action is enforced by a common law remedy, *the substantive law applicable is that of admiralty—not that of the forum.*

Chelentis v. Luckenbach Steamship Co., 247 U.S. 372, 62 L. Ed. 1171 (1918)

Garrett v. Moore-McCormack Co., 317 U.S. 239, 87 L. Ed. 239 (1942)

Kossick v. United Fruit Co., 365 U.S. 731, 6 L. Ed. 2d 256 (1961)

Gilmore & Black, *The Law of Admiralty* (1957) p. 45, (Section 1-18).

Even if appellant or the Toyofuku claimants were allowed to pursue their Jones Act claims in the state court, the laws of Hawaii relating to joint tort feasors, several tort feasors and contribution would be inapplicable. The state court would be bound to apply the federal law on these subjects.

Possibly appellant confuses the savings to suitors' clause with the principle that, in matters of purely local concern, state law will be applied if admiralty has not already preempted the field. *In any event, the relations between seamen and their employers are not matters of local concern, (Garrett v. Moore-McCormack Co., supra; Kossick v. United Fruit Co., supra), and Congress has preempted the field relating to rights against the employer for death of a seaman (Lingren v. United States, supra).*

III.

ALLOWING APPELLEE TO BE IMPLEADED IN THE STATE COURT CASE WOULD SERVE NO USEFUL PURPOSE.

Appellant seeks an order allowing her to tender appellee to the Toyofuku claimants as a new defendant in an action pending in the courts of Hawaii. There are a number of reasons why impleader of appellee would be neither useful nor necessary:

1. The claims of the Toyofuku claimants against appellee are already being litigated. Florence Toyofuku has filed claims in the limitation proceeding in her capacity as administratrix of the Estate of Nobuyoshi Toyofuku, deceased, and on her own behalf and on behalf of her minor children (Tr. p. 17).

2. Mrs. Toyofuku also has urged the District Court to allow her to proceed against appellee outside the limitation proceeding. This relief was denied by Judge Tavares in his order of February 15, 1963, and the time to appeal from that order has expired (Tr. p. 50).

3. Appellant's request for relief should be directed to the state courts. If appellant will be prejudiced by having the state court action against her tried prior to a decision in the limitation case, she should ask the state court to stay its proceedings. The record does not show whether appellant has asked for such relief in the state court. It might also be pointed out that, but for appellant's motion of March 15, 1963, and this appeal, the limitation case could already have been tried and decided by the District Court.

In the last analysis, appellant's real complaint is that appellee, the shipowner, is receiving protection from the

limitation statutes which is denied to her as administratrix of her husband's estate. This is indeed unfortunate. However, Congress considered this problem and decided that masters, officers, and seamen should not receive any benefit of the limitation statutes. Such is the clear meaning of 46 *U.S.C.* Sec. 187.

CONCLUSION

The limitation statutes and the Supreme Court Admiralty Rules provide for a special proceeding in the multiple claim-inadequate fund situation. In such cases the shipowner is entitled to require that all claims be litigated in the limitation proceeding. The cases so hold without exception.

Appellant assaults the established procedure in limitation cases with the argument that the Hawaiian courts should be allowed to try claims against appellee *based upon the substantive law of Hawaii.* But, this argument fails because the premise is unsound. Neither appellant nor Mrs. Toyofuku can base any claim against appellee on the state law. The Jones Act preempts the field; it displaces the state law, and provides the only basis for any claims against appellee.

Appellee submits that the District Court was correct in denying appellant's motion, and that the order of the District Court should be affirmed.

Dated, San Francisco, California,
January 30, 1964.

Robert H. Thede,
Derby, Cook, Quinby & Tweedt,
Proctors for Appellee.

NO. 18890

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

CECILIA E. SOULE, Executrix of the Estate of WALTER N. SOULE, Deceased, Appellant,	)
vs.	)
KAHULUI RAILROAD COMPANY, Appellee.	)

REPLY BRIEF FOR APPELLANT

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Cecilia E. Soule, Executrix of the
Estate of Walter N. Soule, Deceased,

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NO. 18890

UNITED STATES COURT OF APPEALS

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vs.	)
KAHULUI RAILROAD COMPANY, Appellee.	)

ARGUMENT

This Reply Brief is directed at a portion of Appellee's Answering Brief (pp. 12-15).

Appellant, Soule, seeks to join Appellee, Kahului Railroad Company, as a third party defendant to an action in the Second Circuit Court of the State of Hawaii brought by the Toyofuku claimants against Soule and others. The Toyofuku action is based on the State of Hawaii wrongful death and survival statutes. Tungus v. Skovgaard, 358 U.S. 588, 71 ALR2d 1280 (1959). Appellee ignores this fundamental consideration, and argues that these Hawaii statutes, which are the basis for the Toyofuku action, should be ignored by this Court.

Appellee next argues that the Jones Act remedies are exclusive and that "There is no cause of action against the

employer based upon the doctrine of unseaworthiness..." (p. 12 Ans. Brief). This is not correct.

> "It is entirely clear that Congress did not intend the Jones Act to be an all-inclusive statute, stating the only ground of personal injury recovery for seaman against ship-owner-employer. The Supreme Court was undoubtedly correct in concluding that by the Jones Act Congress had meant to leave the pre-statutory unseaworthiness remedy intact and merely to add a remedy, previously not available, for injuries resulting from operating negligence." Gilmore and Black, The Law of Admiralty (1957), Section 6-34, p. 308. See also, Id., Sections 6-23 and 6-38.

Appellee attempts to use its argument relative to the exclusive nature of the Jones Act remedy as a stepping stone leading to its unarticulated conclusion that Kahului Railroad Company cannot be joined as a third party defendant to the

Toyofuku action because the courts of the State of Hawaii cannot hear actions arising under the Jones Act. This is not correct. There is no such doctrine of preemption.

> "It is clear that the state courts have jurisdiction concurrently with the federal courts to enforce the right of action established by the Merchant Marine Act as a part of the maritime law." Engel v. Davenport, 271 U.S. 33, 37 (1926). Compare, Dowd Box Co. v. Courtney, 368 U.S. 502,507 (1962).

If the liability of the Kahului Railroad Company to the Toyofukus is based on the Jones Act, the courts of the State of Hawaii can hear the matter, subject, of course, to the ultimate, overriding power of admiralty to limit the shipowner's liability.

Finally, Appellee argues that, in any event, even though the matter ~~was~~ be litigated in the state court, the Hawaii statutes relative to the liability of joint and several tort-feasors and contribution would not be applicable, for the federal law on the subject would apply (p. 15 Ans. Brief). Appellee cites no authority of any kind for this proposition. Nor does Appellee offer any reason why in this "choice of law" situation "federal law" should apply.

Appellee offer any reason why in this "choice of law" situation "federal law" should apply.

More importantly, however, Appellee fails to indicate what the applicable "federal law" is. There is no "choice of law" problem if there is no conflict. Absent some statement of the "federal law", are we certain a conflict exists?

At root, Appellee fails to understand the fundamental premise that the State and Federal Governments have a concurrent responsibility for the development of maritime law.

> "Maritime law is not a monistic system. The State and Federal Governments jointly exert regulatory powers today as they have played joint roles in the development of maritime law throughout our history. This sharing of competence in one aspect of our federalism has been traditionally embodied in the saving clause of the Act of 1789."
> Romero v. International Terminal Operating Co., 358 U.S. 354, 374 (1959)

Accordingly, this Court must decide whether the interest of the State of Hawaii in affording Soule every opportunity available under the laws of the State of Hawaii to defend herself outweighs the narrow interest of the shipowner in confining the litigation arising out of the casualty to a single forum. This is the problem.

Dated at Wailuku, Maui, Hawaii, this 25th day of February, 1964.

Respectfully submitted,

William F. Crockett

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I CERTIFY THAT, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

William F. Crockett

No. 18891

In the

United States Court of Appeals

For the Ninth Circuit

UNITED STATES FIDELITY AND GUARANTY COMPANY, a corporation, *Appellant,* vs. STEWART'S DOWNTOWN MOTORS, et al, *Appellees.*	

Appeal from the United States District Court
for the District of Arizona

Brief of Appellees

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No. 18891

In the

United States Court of Appeals

For the Ninth Circuit

United States Fidelity and Guaranty Company, a corporation,
Appellant,
vs.
Stewart's Downtown Motors, et al,
Appellees.

Appeal from the United States District Court
for the District of Arizona

Brief of Appellees

JURISDICTION

Appellant, a Maryland corporation, commenced this action for a declaration of its rights, duties and responsibilities under a policy of comprehensive liability insurance, the limits of which were well in excess of $10,000.00. (Exhibit 1) Appellees were individuals and corporations that were at all times citizens of Arizona. The pleadings established no issue as to the jurisdictional facts. (R. 4, 5, 13, 14) The District Court had jurisdiction pursuant to 28 U.S.C. § 1332(a)(1).

Judgment in favor of Appellees was entered on May 24, 1963. Appellant filed its Notice of Appeal on June 21, 1963.

Accordingly, this Court has jurisdiction by virtue of 28 U.S.C. § 1291.

STATEMENT OF THE CASE

Appellant's "Statement of the Case" omits many of the relevant facts that without doubt prompted the District Court to enter judgment for Appellees. Appellees elect, therefore, to exercise their privilege pursuant to Rule 18(3) of this Court to submit their own statement.

Appellant was a liability insurance company, with its principal offices in Baltimore, Maryland. Adjacent thereto were the offices of The Del Mar Company, a wholly owned subsidiary through which Appellant provided financing of premiums. (R. 99, 123) Such arrangements are common in the insurance business. (R. 123)

In conducting its liability insurance business in Arizona, Appellant did no direct business with the public. Instead, it marketed its product exclusively through agents it selected. A prospective insurance customer who inquired at the offices of Appellant invariably was referred to one of its agents, and he thereafter negotiated for and received a policy from the agent. (R. 90)

Prior to the time the insurance policy in question was issued, Copperstate Insurance Agency (an Arizona corporation, of which M. Wesley Douglas was president and Dick Smith III was vice-president and secretary-treasurer) became a general agent of Appellant for the Phoenix area. (R. 118) Appellant and Copperstate signed a written agency agreement. (Exhibit 2) The agency agreement did not specifically define the authority of the agent to bind the insurer to risks other than to state that Copperstate might issue and deliver ". . . binders which the Company may, from time to time, authorize to be issued and delivered." Although Appel-

lant never gave Copperstate any further instructions regarding the binding of risks (R. 129), Appellant's Arizona Manager admitted that in practice and by custom Appellant's agents had authority to bind it to certain risks without first consulting it:

> "Q. In other words, the agent binds the risk, and then notifies the company that the company has been bound with a risk, is that correct?
>
> A. They will write a policy and send us a copy of it, that is right. And of course they make the policy effective.
>
> We won't hear about it until the next day.
>
> Q. All right. You say that this is true with family automobile policies and fire policies, and policies like that?
>
> A. Policies that don't have an underwriting problem.
>
> A competent agent will recognize that there is an underwriting problem, and he should contact the company before binding it.
>
> Q. You say this is all due to custom, is that true, and practice in the insurance business?
>
> A. Yes." (Testimony of T. D. Gibson, R. 93)

In executing the agency agreement Appellant's Arizona Manager intended to grant Copperstate the same authority its other agents had. (R. 89)

Appellees consist of eighteen individuals and corporations who were engaged in the automobile and other businesses. (R. 102) They owned or possessed between 60 and 100 automobiles at any given time. (R. 103)

On or about August 22, 1961, and prior thereto, Appellant, acting through Copperstate, negotiated for and sold to Appellees a "comprehensive liability policy." (R. 145-146) The estimated premium (subject to adjustment at the end of the year, depending upon changes in Appellees' status) was to

be $10,151.69. (Exhibit 3) On September 21, 1961, Appellees, by Spencer D. Stewart, signed an invoice and note for $8,-290.17. The note was payable to Copperstate, and called for payments of $921.13 due on the 22nd day of September, October, November, December, January, February, March, April and May. Appellees made a "down payment" to Copperstate of $2,030.34, and in addition made at that time the September payment. Copperstate then assigned the note to The Del Mar Company. (Exhibit 3)

In all of the aforementioned dealings, the insured had no contact with the insurance company except through its agent, Copperstate. (R. 104)

Although the effective date of the policy was August 22, 1961, the policy was not delivered to the insured until two weeks or so later. (R. 122) When it was delivered, the policy bore the countersignature of Mr. Douglas. (R. 123) During the period between August 22 and the time the policy actually was delivered, the insurance was effective solely by virtue of Douglas' oral statement to the insured that coverage existed. (R. 121, 146)

On February 22, 1962, a payment was due on the premium note. As of that date, only *one-half* of the policy period had expired, whereas a total of $6,635.99 or roughly *two-thirds* of the estimated total premium had been paid. (R. 105-106) At about the time the payment was due the entire efforts of the Stewart employees responsible for making the payment were devoted to a local United Cerebral Palsy Drive and, particularly, to staging a "telethon" for that charity in Phoenix. (R. 107) The insurance payment was inadvertently overlooked. At all times, the Appellees were fully able, financially, to make the payment. (R. 111-112)

On the morning of March 19, 1962 B. Van Voorhis Munson, Controller of Appellees, received from The Del Mar

Company a notice to the effect that the finance company was exercising its rights under the invoice and note to declare a forfeiture and cancellation of the policy. (R. 108; Exhibit 5) Upon his receipt of the notice, Munson immediately telephoned Copperstate. (R. 108) He was responsible for maintaining Appellees' insurance coverage (R. 103), and had to take immediate action. Munson testified he told Smith:

> ". . . I couldn't afford to be without coverage, and I asked his suggestion as to what I should do to get coverage." (R. 109)

Smith told Munson to mail in the delinquent payment. Munson complied, sending the check air mail. (R. 109)

Smith's advice to Munson to mail the delinquent payment to Appellant's wholly-owned finance agency, Del Mar, was given at a time when:

1. No loss had occurred (the first accident occurred March 30, 1962). (Pre-Trial Stipulation No. 2, R. 45).

2. One payment, and only one payment, was due, i.e. the one due on February 22, 1962. (R. 105-106)

3. All Appellees' negotiations and discussions regarding the policy had been with Copperstate. None had been with Appellant directly. (R. 104)

Munson believed that by his compliance with Smith's request for payment to Del Mar coverage would continue. (R. 109) Had Smith not given him this advice Munson would have gone elsewhere for coverage. (R. 110) He relied upon Smith's advice, and believed Smith had authority to give such instructions. (R. 110)

Appellant's financing agency, Del Mar, accepted the payment and credited it to Appellees' account, but otherwise did nothing until March 23, although it would seem likely it received Appellees' check on March 21 at the latest. On March 23, the March 22 payment was one (1) day overdue.

Del Mar mailed a letter by regular mail, not air mail,* to Copperstate advising that no reinstatement could be requested until the March payment was made. (Exhibit 6; R. 127) Although Spencer Stewart was the addressee, Munson never saw that letter. (R. 111) Copperstate received a copy on March 27. (R. 127)

Smith did nothing about the notice until after the March 30 accident. (R. 127-128) According to Munson, Smith called him on April 5 and reminded him about the March 22 payment. (R. 111) Munson caused that payment to be made (R. 111), and Del Mar mailed a "Request for Reinstatement" (Exhibit 7) to Appellant's Phoenix Office on or about April 9. (Stipulation 1(g); R. 44)

On April 13, 1962 Appellant's Phoenix office sent a letter to Appellees (received April 16) advising them that because accidents had occurred the company would consider the policy cancelled effective March 16. This was Appellees' first communication of any kind from Appellant since the date of alleged cancellation. (R. 112) During the four (4) weeks that had passed since March 16 the insurer had neither refunded any part of the unearned premium nor had it even taken any action in computing the amount of refund. (R. 98)

Accidents involving Appellees and their agents and servants occurred on March 30, April 7, and April 10. (Stipulations 2 and 3; R. 45-46) Appellant denied any responsibility to Appellees with respect to these occurrences. Appellees proceeded to protect their interests by settling one claim and retaining attorneys to defend another. (Stipulations 2, 3 and 4)

The Del Mar Company tendered to defendants the sum of $2,852.72 as unearned premium, but Appellees refused to

---

*This inference necessarily arises from the fact that Copperstate received its copy four days later.

accept that amount and returned the check upon advice of counsel. (Stipulation No. 5; R. 47, 113) Prior to trial the parties entered into a stipulation as to the procedure to be followed in computing unearned premium in the event the effective cancellation date of the policy was judicially declared to be later than March 16, 1962. (Stipulation No. 5; R. 47)

The court found the issues to be in favor of Appellees and thereafter duly entered findings of fact and conclusions of law. The court's judgment declared the policy to have been in full force and effect at all times from August 22, 1961 to and including April 16, 1962; ordered that Appellees were entitled to performance by Appellant of its obligations under the policy with respect to any and all claims and events that occurred while the policy was in effect; and, awarded judgment for certain specific sums against Appellant in favor of Appellees. The judgment also provided that the court retained jurisdiction for the purpose of taking such additional evidence and making such further orders as might be necessary.

SUMMARY OF ARGUMENT

Although Appellant's finance company, Del Mar, was authorized by the invoice (Exhibit 3) to bring about a cancellation of the insurance, there is abundant legal authority to the effect that conduct of its agent may estop an insurer from asserting the cancellation or forfeiture of a policy of insurance.

In the case at bar, the insured sought advice from the insurer's chosen spokesman as to what to do to continue the coverage in force. The insurer demanded performance by the insured of their obligations, i.e. the payment to Del Mar. The insured dutifully obeyed, in the good faith belief that coverage existed. No loss had yet occurred.

Later, on April 13, 1962, after the accidents, it became apparent to Appellant's higher echelon that Policy No. CLP 69624 wasn't such a bargain after all. Appellant sought then, as it does now, to avoid its responsibilities under the policy by making use of Del Mar's cancellation notice.

The legal effect of the agent's conduct might variously be described as a "binder," a reinstatement of a cancelled policy, or mere estoppel to assert cancellation. The result is the same. Appellant is responsible for its obligations under the policy with respect to events and occurrences prior to April 16, 1962, the date Appellees received Appellant's first unequivocal declaration that it refused to perform, and that it considered the policy cancelled.

ARGUMENT

The Court Committed No Error in Directing Appellant to Proceed First with Its Evidence.

Appellant assigns as error the trial court's direction that Appellant proceed first with the presentation of its evidence. (Assignment of Error 18) Appellant then begins its Argument by asserting that the insured has the burden of proof to establish that a policy of insurance is in effect.

Having in mind that this case was tried to the court without a jury, that the trial court never expressly ruled on the question of who had the burden of proof, that no conclusion of law was entered with respect to burden of proof, and that the court entered no finding to the effect that the insured had failed to meet its burden of proof as to the establishment of any fact, it is difficult to understand why the question is relevant.

In any event, there is a basic fallacy in Appellant's position. Had the insured commenced an action for declaratory relief, it would have alleged and proved the issuance and

delivery of a policy of insurance and would thereafter have rested. The insurance company would have alleged as an affirmative defense the cancellation of the policy and would have had the burden of proof as to that affirmative defense. Rule 8(c), Federal Rules of Civil Procedure, provides in part as follows:

> "In pleading to a preceding pleading, a party shall set forth affirmatively accord and satisfaction, arbitration and award, assumption of risk, contributory negligence, discharge in bankruptcy, duress, estoppel, failure of consideration, fraud, illegality, injury by fellow servant, laches, license, payment, release, res judicata, statute of frauds, statute of limitations, waiver, *and any other matter constituting an avoidance or affirmative defense.*" (Emphasis Supplied)

Under the circumstances the burden of proving a cancellation of the policy would have been on Appellant. *Cf. New York Life Ins. Co. v. Rogers,* 126 F.2d 784 (9th Cir. 1942).

Copperstate Had Actual Authority to Bind the Risk and at Least Apparent Authority to Reinstate Coverage.

(a) Introductory note.

At pages 5-6 and at page 15 of its brief Appellant attempts to distort counsel's opening statement (R. 100-101) into a concession that the policy was in fact cancelled. Appellees have never made any such concession, nor do they do so now. Appellees do not dispute the written terms of the invoice, nor do they dispute that Del Mar mailed a cancellation notice. It has at all times been Appellees' position that Appellant is estopped by its conduct to assert cancellation of the policy, and that irrespective of the estoppel argument Copperstate either bound the risk or reinstated the policy.

Appellees will set forth their estoppel argument in a later section of this brief.

(b) Copperstate "bound" the risk.

Viewed strictly as a contractual matter, the Smith-Munson telephone conversation of March 19, 1962, bound the company to continued coverage under the policy. It is reasonable to infer from the conversation an agreement that if Munson sent in the $921.13 payment on behalf of Appellees, coverage would not terminate. Appellees accepted the offer by doing the act called for, i.e., sending in the payment. Unquestionably, the promise to insure was supported by consideration—the benefit running to The Del Mar Company, and detriment to the promisees—the Appellees.

The record contains ample evidence that it was well within the scope of Copperstate's authority to bind this risk. First, the agency agreement (Exhibit 2) itself provides that the agent may "issue and deliver policies . . . and binders which the Company may, from time to time, authorize to be issued and delivered." By providing that "a report of risks assumed shall be made to the Company daily," the agreement further makes it clear that the assumption of risks by the agent is contemplated by the parties. T. D. Gibson, Arizona Manager for Appellant testified that according to custom the company's agents are authorized to bind risks "that don't have an underwriting problem." (R. 93) Both Smith and Douglas testified that they bound risks on behalf of plaintiff and were never told not to do so. (R. 129, 130, 148) Douglas, with twenty-five years' experience as an insurance agent, testified that it was general practice in the insurance business for agents to bind risks prior to notifying the company. (R. 148) Douglas considered the policy in question to be in most respects a "normal risk:"

"A. In most respects it was a normal risk. This particular risk consisted of various enterprises, but that each individual enterprise, however, I believe by itself would prove to be a normal risk." (Testimony of M. Wesley Douglas, R. 151)

The testimony of Smith, Douglas and Gibson clearly established that Copperstate and Smith were "general agents" of the company, having authority to bind it to risks. On the subject of who is a general agent of an insurer and who is not, 16 Appleman, *Insurance Law and Practice,* § 8691, states:

"It is true, as will be shown later, that a general agent can bind the insurer in many ways which a soliciting agent can not. It is important, however, to find a precise and exact test which will be susceptible of easy application. That test is whether or not the agent has the power to bind the insurer by his contract of insurance, or to issue policies on his own initiative, or to accept risks, and if the agent has actual authority to do these things, he is a general agent; if he cannot place coverage in effect, but can merely initiate negotiations therefor, he is not a general agent."

The general agent of an insurer stands in its stead in conducting its business, and has authority coextensive with that of the principal. Appleman, *op. cit. supra,* § 8693; *Kentucky Home Life Ins. Co. v. Johnson,* 263 Ky. 787, 93 S.W.2d 863 (1936).

From the standpoint of the insured, Copperstate certained appeared to have binding authority. The policy itself was signed by Douglas. Initially, coverage existed for two weeks solely on Douglas' oral statement to Appellees they were covered. (R. 146)

A finding that Copperstate bound Appellant to the risk on March 19, 1962 and thereafter for a reasonable time is

easily justified. With the March 19 payment, Del Mar and the insurance company had then received a total of $7,557.12 of the total premium of $10,151.69 (about three-fourths), with almost half the policy year yet to run. Certainly the company and Del Mar were adequately protected, so that if at a later time the matter could not be resolved satisfactorily, appropriate adjustments could be made.

The fact that the binder was oral is not important. Absent a statute to the contrary, a parol contract of insurance is valid and enforceable. *(Pacific Fire Ins. Co.* v. *Donald,* 148 Tex. 277, 224 S.W.2d 204 (1949); *Kazanteno* v. *California-Western States Life Ins. Co.,* 137 Cal.App.2d 361, 290 P.2d 332 (1955); *Guipre* v. *Kurt Hitke & Co.,* 109 Cal.App.2d 7, 240 P.2d 312 (1952).)

As a matter of insurance law Smith had authority to continue the coverage. Although the precise words were not used, the fair implication of Smith's statement to Munson was "if you send in the delinquent payment, you may rest assured that the same coverage will continue in force, and upon the same terms." When Smith so advised Munson, he spoke for the insurance company because it was within the scope of his implied authority as a general agent. Quoting from Appleman, *op. cit. supra,* § 7224:

> "An agent possessing power to bind the insurer has authority to bind it by a preliminary or temporary contract of insurance. A general agent is considered to have implied authority to write temporary policies, so as to bind the insurer by his agreement that a loss will be covered pending negotiations for a larger policy. And a general agent is authorized to bind a fire insurer by executing a binder, even though the binder was not delivered.
>
> "Where an agent is furnished with forms stating when accident and illness insurance should become effective, he had apparent authority to make a contract

> by filling in the blanks. And an agent authorized to issue and deliver insurance policies may, in the absence of contrary statute, bind the company to a temporary contract of insurance. The insurer is not entitled to deny the authority of a soliciting agent to execute a binder in the absence of notice of a limitation of the agent's authority to the applicant."

And later in the same section it is stated:

> "A statement by a general agent of the insurer that he will hold a risk 'covered' means that the insured is protected at once, and not merely that the agent will make a notation and issue a policy in the future."

The company was contractually bound by the promises and assurances of its general agent.

(c) In the alternative, the policy was reinstated.

Whether the technical name applied to what Copperstate brought about is a "binder" or a "reinstatement" really has little effect upon the legal result. The point is that Copperstate's assurances to Appellees either effected new coverage upon the same terms as Policy No. CLP 69624, or they revived the policy.

Appellant makes much of the fact that Gibson, Smith and Douglas all seemed to be agreed that Copperstate had no actual authority to "reinstate" a cancelled policy, as that term is understood in the insurance business, without Appellant's consent. But looking at the matter from the insured's standpoint:

1. Appellant maintained an "ivory tower" detachment from the public. E.g.:

> "Q. So it is true, then, that the United States Fidelity and Guaranty Company deals with the public only through independent insurance agents?
>
> A. Correct." (Testimony of T. D. Gibson, R. 90)

2. In fact, Appellees had never had any communication or dealings with Appellant, except through Copperstate, prior to April 16, 1962. (R. 112)

3. The policy existed as an insurance contract solely on the oral statement of M. Wesley Douglas for the first two weeks of its life. (R. 146)

4. The signature of Douglas made the formal contract effective as a policy of insurance. (Exhibit 1)

5. During the March 19 Smith-Munson telephone conversation the term "reinstatement" never was used, nor did Smith tell Munson what the intra-company mechanics of effecting coverage would be. (R. 143)

Under these circumstances, the general agent's conduct bound the company. As stated by Appleman, *op. cit. supra,* § 8693:

> "One seeking insurance from a general agent is not bound to inquire as to the precise instructions he has received from his company. The restrictions and limitations existing upon the authority of a general agent as between such agent and the company are not binding upon policyholders in their dealings with such agent, in the absence of knowledge on their part of such limitations."

In any event, whether the company, the company's finance agency and the company's agent followed company protocol in reinstating the policy should not decide the critical question of whether the policy was reinstated. The question should be decided by an objective examination of what transpired between the company, by its agent on the one hand, and the insured on the other. We submit that the agent had apparent authority to, and did, reinstate the insurance contract, even though the agent failed to abide by "company rules" in doing so.

Appellant Waived Forfeiture of the Policy When Copperstate Requested Payment of the Delinquent Installment.

When the agent, for and on behalf of his company, requested Munson to send in the delinquent payment, this was a recognition that the policy was still in force and was a waiver of any right the company might have had to a cancellation.

Quoting from dictum in *Exchange Trust Co. v. Capitol Life Ins. Co.,* (D.C.N.D. Okla.) 40 F.2d 687, 690 (1930), affd. 49 F.2d 133 (10th Cir. 1931):

> ". . . Where the insurance company holds a note to cover the unearned portion of a premium due upon a life insurance policy, which note provides that in default of payment the policy shall be terminated or become void, unconditionally demands payment of such note after maturity, the insurer must be held to have regarded the policy as in effect and to have waived its right to declare the policy forfeited or lapsed." (Citing cases)
>
> "The ground upon which this doctrine stands established is that the demand for the payment of the delinquent premium note, after maturity, is inconsistent with the position that the policy has lapsed for nonpayment of premium. The insurer could not insist upon a forfeiture and at the same time by its conduct treat the contract as still in force. The insurer, for whose benefit the forfeiture provision was made, has the unqualified right to waive such a stipulation and insist upon enforcement of the premium note for the unearned premium, and where the insurer has pursued such a course of conduct as to constitute a waiver of the forfeiture provision of the contract, and the reasonable deduction from the evidence is such as to imply a purpose not to insist upon a forfeiture, the insurer will be held liable."

In a case decided by this Court, *Beatty v. Mutual Reserve Fund Life Ass'n.,* 75 F. 65 (9th Cir. 1896), the following language was quoted with approval at page 69:

> "In determining whether there has been a modification of the terms of the policy by subsequent agreement, or a waiver of the forfeiture incurred by the nonpayment of the premium on the day specified, the test is whether the insurer, by his course of dealing with the assured, or by the acts and declarations of his authorized agents, has induced in the mind of the assured an honest belief that the terms and conditions of the policy, declaring a forfeiture in event of nonpayment on the day and in the manner prescribed, will not be enforced, but that payment will be accepted on a subsequent day, or in a different manner; and when such belief has been induced, and the insured has acted on it, the insurer will be estopped from insisting on the forfeiture."

Later in the opinion, at page 71, the Court made these observations on the limitations on the right of insurance companies to assert forfeiture of policies:

> "They cannot say at one time to the holder of a policy or certificate that, 'All we desire is your money, even if the premium or assessment is past due,' and accept it, and then at another time, or after the death of the insured, say that, 'You did not pay your premium or assessment when due, and our contract declares that, if not promptly paid, you have forfeited all your rights.' A forfeiture not being favored in the law, and being a matter of strict legal right, it follows that the party asserting it should be able to show that it has always inflexibly adhered to and insisted upon a strict compliance with the terms of its contract."

See also *Faris v. American Nat. Assur. Co.,* 44 Cal. App. 48, 185 Pac. 1035, 1038-1039 (1919), where it was said:

"It is true that the policy provided that the insurance should ipso facto cease and determine upon the default of the insured; but, nevertheless, by the decisions of the Supreme Court of this state it has been held that, under similar provisions, if the insurance company, after knowledge of said default, enters into negotiations or transactions with the assured which recognize the continued validity of the policy, and treats it as still in force, the right to claim a forfeiture for such previous default is waived. Murray v. Home Benefit Life Association, 90 Cal. 402, 27 Pac. 309, 25 Am.St.Rep. 133."

And in *Metropolitan Life Ins. Co. v. Mulleady's Adm'x.*, 21 K.L.R. 883, 53 S.W. 282 (1899), quoting from the syllabus:

"An insurance company cannot insist upon a forfeiture of a policy for the nonpayment of premiums, where the agent of the company has solicited and received payment of premiums after the right to a forfeiture accrued, representing that the policy was in full force and effect."

To the same effect is *Occidental Life Insurance Company v. Jacobson,* 15 Ariz. 242, 137 Pac. 869 (1914). (Discussed *infra.*)

Appellant Is Estopped to Assert Cancellation of the Policy.

(a) The elements of equitable estoppel are present.

From its findings the trial court concluded as a matter of law that Appellant was equitably estopped to assert a forfeiture or cancellation of the policy on any date prior to April 16, 1962. (Conclusion of Law No. 5, R. 61)

Munson was the person responsible for Appellees' insurance. (R. 103) Knowing that Appellees had perhaps as many as 100 automobiles (R. 103), Munson knew that he "couldn't afford to be without coverage." (R. 109) For the purpose of ascertaining the status of the insurance and what should be

done to assure coverage, Munson did the logical thing. He telephoned Copperstate, the only representative of Appellant with whom he had ever dealt. (R. 104)

Should he have telephoned the insurer's home office or its Phoenix office? The question must be answered in the negative, because Appellant did not deal directly with the public; it dealt with the public only through independent insurance agents. (R. 90)

Smith's instruction to Munson to mail the overdue payment to Del Mar was positive and without qualification. Both Smith and Munson believed that coverage would continue if Munson complied with the instruction. (R. 109, 126) Smith knew in his experience as an insurance agent that insurance companies commonly employ cancellation notices as means of stimulating payment of premiums. (R. 126) That Smith, an experienced insurance agent, believed that coverage would continue tends to support the proposition that Munson, a layman, relied in good faith also.

Munson had no way of knowing, nor did Smith tell him, what intra-company rules, regulations or procedures would have to be resorted to in continuing the insurance. It would be unfair to attribute knowledge of such "red tape" to Munson under the circumstances.

The facts present a classic case for application of the doctrine of equitable estoppel as it is understood in Arizona jurisprudence. In *Holmes v. Graves,* 83 Ariz. 174, 318 P.2d 354, 356 (1957), it was said:

> "Estoppel is quite generally predicated on conduct which induces another to acquiesce in a transaction, and that other, in reliance thereon, alters his position to his prejudice. It has three elements. First, acts inconsistent with the claim afterwards relied on; second, action by the adverse party on the faith of such conduct; third, injury to the adverse party resulting from the repudia-

tion of such conduct. See Kerby v. State, 62 Ariz. 294, 157 P.2d 698. Estoppel will be applied to prevent injustices, Munger v. Boardman, 53 Ariz. 271, 88 P.2d 536, and to transactions in which it would be unconscionable to permit a person to maintain a position inconsistent with one in which he has acquiesced. 19 Am. Jur. 676, Estoppel, Section 62."

And in *Heckman v. Harris,* 66 Ariz. 360, 188 P.2d 991, 992-993 (1948), the Court stated:

> " 'Equitable estoppel may be defined as the effect of the voluntary conduct of a party, whereby he is absolutely precluded from asserting rights which might have otherwise existed as against another person who, in good faith, has relied upon such conduct and has been led thereby to change his position for the worse. The essential elements of estoppel are that plaintiff, with knowledge of the facts, must have asserted a particular right inconsistent with that asserted in the instant action, to the prejudice of another who has relied upon his first conduct.' "

In *Onekama Realty Co. v. Carothers,* 59 Ariz. 416, 129 P.2d 918, 922 (1942), the Court observed:

> ". . . when one has lulled another into security by his conduct he cannot take advantage of such conduct until he has given an opportunity to the deceived party to restore the status quo."

(b) The conduct of an insurance company's agent may estop the company from asserting cancellation or forfeiture of a policy.

Many judicial decisions have applied the estoppel doctrine to prevent forfeiture of insurance policies.

In *Continental Casualty Co. v. Bridges,* (Tex.Civ.App.) 114 S.W. 170 (1908), the insured had applied for a renewal policy. When it was delivered he objected to it because the coverage was different from what he had expected. In spite

of the fact that the premium had not been paid, the agent handling the renewal advised the insured that he would be protected during the interim until issuance of the new policy. During the period a loss occurred, and the company asserted a forfeiture of the policy for nonpayment of the premium. It was held that the company was estopped to assert such forfeiture because of the acts of the agent.

Similarly, where an agent, when asked by the insured for an extension of premiums, told the insured to "let it go" and he "would write the company about it," but neglected to do so, the company was held bound in *Smith v. Hartford Fire Ins. Co.,* (Mo.App.) 272 S.W. 700 (1925). Where the agent advised the insured that his failure to make a payment or tender of premium would not forfeit the policy the company was held to be bound by such statement in *Baumann v. Metropolitan Life Ins. Co.,* 144 Wisc. 206, 128 N.W. 864 (1910).

In *Metropolitan Life Ins. Co. v. Mulleady's Adm'x.,* 21 K.L.R. 881, 53 S.W. 282 (1899), it was held that an insurer was estopped to assert a forfeiture of the policy where the agent had solicited and received premiums representing that the policy was still in full force and effect.

In *Service Fire Ins. Co. v. Payne,* 218 Ark. 499, 236 S.W. 2d 1020 (1951), the court, in discussing the estoppel doctrine, quoted from *American Life Association v. Vaden,* 164 Ark. 75, 261 S.W. 320, 324 (1924), as follows:

> ". . . 'forfeitures are not favored in the law,' and that 'courts are always prompt to seize hold of any circumstances that indicate an election to waive a forfeiture, or an agreement to do so, on which the party has relied and acted. Any agreement, declaration, or course of action, on the part of an insurance company, which leads a party insured honestly to believe that, by conformity thereto, a forfeiture of his policy will

not be incurred, followed by due conformity on his part, will, and ought to estop the Company from insisting upon the forfeiture, though it might be claimed under the express letter of the contract.' "

In *Knapp v. Independence Life and Accident Insurance Co.*, (W. Va. S. Ct. App.) 118 S.E.2d 631 (1961), the court found the estoppel doctrine inapplicable, but defined it, at pages 636-637 of the S.E.2d Reporter, as follows:

> "In the law of insurance the elements of an estoppel against an insurer are conduct or acts on the part of the insurer which are sufficient to justify a reasonable belief on the part of the insured that the insurer will not insist on a compliance with the provisions of the policy and that the insured in reliance upon such conduct or acts has changed his position to his detriment."

In *Travelers Insurance Co. v. Sindle,* (D.C.W.D. Ark.) 186 F.Supp. 8 (1960), it was said at page 17 of the opinion:

> "It may be conceded that under the law of Arkansas a general agent of an insurance company has the power to waive any condition inserted in a policy for the benefit of the insurer and that forfeitures are not favored in law. The courts have held that any agreement, declaration or course of action on the part of an insurance company which leads a party insured honestly to believe that by conformity thereto, a forfeiture of his policy will not be incurred followed by due conformity on his part, will estop or ought to estop the company from insisting on a forfeiture, though it might be claimed under the express letter of the contract."

And in another case decided under the law of Arkansas, *Jackson v. M.F.A. Mutual Insurance Company* (D.C.W.D. Ark.) 169 F.Supp. 638, 644 (1959), the court stated:

> " 'This court has often held that the doctrine of waiver and estoppel applies to insurance contracts, and that these principles will be liberally applied, when it is necessary to prevent injustice and fraud being

perpetrated by insurance companies upon their policyholders, when the latter have been misled or imposed upon by the agents of such companies.' "

In still another Arkansas case, *Union Life Insurance Co. v. Brewer,* 228 Ark. 600, 309 S.W.2d 740 (1958), an action on an accident policy, the agent of the company had collected the premiums in a manner other than was specified in the policy and such collections had been irregular. It was held that the insurer had waived the right to claim a forfeiture and a lapse of the policy for nonpayment of the premium. At pages 743-744 of the Southwest 2d Reporter the court said:

> "Our well established general rule, as announced in many of our cases, is as follows: 'Forfeitures are not favored in law, and that courts are always prompt to seize hold of any circumstances that indicate an election to waive a forfeiture, or an agreement to do so, on which the party has relied and acted. Any agreement, declaration, or course of action on the part of an insurance company which leads a party insured honestly to believe that, by conformity thereto, a forfeiture of his policy will not be incurred, followed by due conformity on his part, will estop, and ought to estop, the company from insisting on a forfeiture, though it might be claimed under the express letter of the contract.
>
> " 'Policy conditions as to forfeiture for the nonpayment of premiums or premium notes are regarded as being for the benefit of the insurer, and hence may be waived by it. . . . (Sec. 8401.)' Volume 15, Appleman on Insurance.
>
> " 'Forfeitures are so odious in law that they will be enforced only where there is the clearest evidence that such was the intention of the parties. If the practice of the company and its course of dealings with the insured and others known to the insured have been such as to

induce a belief that so much of the contract as provides for a forfeiture in a certain event will not be insisted on, the company will not be allowed to set up such forfeiture as against one in whom their conduct has induced such belief.' "

In a case decided in this Court, *Stivers v. National American Insurance Co.,* 247 F.2d 921 (9th Cir. 1957), the question was whether under a fire policy the premises were "occupied" within a requirement of the policy that the premises, in order to be covered, had to be occupied. The agent had advised the insured that under the circumstances the premises were occupied. It was held that the insurance company was estopped to disavow the construction of the policy which the agent had induced the insured to accept. The Court said at page 928:

> "Where, as here, a general agent of the insurer undertakes to advise a policy holder as to the meaning of a provision of the policy, and what will constitute full compliance therewith, the latter is entitled to rely thereon, unless such advice is in patent conflict with the terms of the policy."

The authorities cited above with respect to forfeiture of insurance policies also represent the law in Arizona. In *Occidental Life Insurance Company v. Jacobson,* 15 Ariz. 242, 137 Pac. 869, 870 (1914), the court stated:

> "We think the conduct of the defendant clearly indicated an intention upon its part not to insist upon the forfeiture provision in the policy, and that the insured at the time he made the payment on the note was led to believe that the company did waive the same, so it is estopped from claiming a forfeiture now.
>
> "Forfeitures are not favorites of the law. Courts are not slow in causes of this character to seize upon an opportunity whereby a liberal construction placed upon

> the acts of the insurer will bring about a waiver of a forfeiture provision placed in the contract of insurance for its benefit, if such a construction is demanded by the justice of the case, and is not repugnant to the law."

In summary, it would be clearly inequitable to permit the insurance company to assert a forfeiture or cancellation of the policy under the facts presented. Not only did its agent mislead the insured into doing nothing but it remained silent for a period of four weeks following the purported date of cancellation. Had it acted promptly and unequivocally in asserting the cancellation the problems presented by this lawsuit would have been avoided.

It seems reasonably clear that if Smith had called the Phoenix office of the company and related his conversation with Munson, the company would have acquiesced in Smith's actions. Unquestionably the risk was still acceptable to them. This is evidenced by the fact that even as late as April 16, 1962, the company issued a formal binder. (R. 150-151)

(c) Copperstate's interests were not "adverse" to Appellant's.

Appellant argues that Copperstate occupied a position "adverse" to Appellant because its commission was in jeopardy; that Appellees should have known this, and they therefore had a duty to inquire into the scope of Copperstate's authority.

First, the record is devoid of any evidence concerning the existence or amount of any commission payable to Copperstate, or the circumstances under which Copperstate would acquire or lose its commission.

More important, however, than the lack of evidentiary support for the argument is the fact that it is contrary to logic. Smith's election in behalf of his company to demand payment of the premium note rather than confirm the can-

cellation was no doubt influenced by a number of factors. There had been no change in the risk. No loss or accident had occurred. With an annual premium in excess of $10,000.00, and the reasonable expectation of annual renewals, Appellees' account represented a sizeable piece of business for both Copperstate and the insurance company. Counsel seem to have overlooked what their client knows only too well: Appellant is *not* a non-profit organization!

(d) Appellees' reliance that coverage existed to and including April 16, 1962 was justifiable.

As we understand Appellant's final argument, Del Mar seemed to follow an office procedure of sending the original of correspondence to Appellees with a copy to Copperstate; therefore, if Copperstate received, on March 27, a copy of a letter dated March 23, Del Mar must have sent the original to Appellees and Appellees must have received it also on March 27, because letters mailed are presumed received. Therefore, it is argued, Appellees must have known on March 27 there could be no reinstatement of the policy.

This argument lacks substance for several reasons.

To begin with, Appellant offered no evidence to the effect that Del Mar mailed the letter to Appellees. The pretrial stipulations provided only that a copy was received by Copperstate. (Stipulation No. 1(f), R. 44) Appellant's attempt to demonstrate an "office procedure" of mailing correspondence to Appellees by alluding to a few other occasions certainly is not evidence of an inflexible, routine office procedure.

There was no proof the letter was mailed. Accordingly, no presumption of Appellees' receipt of the supposed letter can arise. But even if it did arise such presumption or inference would quickly have disappeared with Munson's posi-

tive, direct testimony that he, the person responsible for the insurance, did *not* receive it. (R. 115)

In considering and weighing the equities the trial court had the right to consider Munson's testimony and either believe it or disbelieve it. Implicit in the court's findings and judgment is a belief of the testimony.

Munson heard nothing about the policy until April 5, when Smith advised making another payment to Del Mar, which Munson did. (R. 111) Once again, the insurance company, acting through its agent, requested Appellees' performance of their obligations. This is consistent only with the policy's being in force; it is inconsistent with the proposition that the company considered the policy concelled.

It was not until April 16, 1962 that Appellees were advised by Appellant that it denied responsibility for the accidents and that it would consider the policy cancelled effective March 16. After that letter was received, arrangements were quickly made to provide new coverage. (R. 150)

From March 19 to April 16 Appellees were reasonably led to believe and did believe that coverage existed. On two occasions the insurer requested payments on the premium note and Appellees complied. The Phoenix and Baltimore offices of the insurer stayed in their ivory towers and remained silent, while the insurer's finance company accepted the payments and credited them to the account. Certainly the insurance company must be charged with knowledge that Appellees believed they were covered. Insureds do not make payments on cancelled policies.

Clearly, Appellees were lulled into a feeling of security and dissuaded from protecting themselves at all times until April 16, 1962.

CONCLUSION

The judgment of the District Court recognizes the realities of the manner in which insurance business is transacted. Some insurers do exclusively a mail-order business. At least one operates in conjunction with a chain of department stores. Perhaps most use the independent agent, and some, like Appellant, use him exclusively.

The insurer is free to choose its mode of selling what it has for sale, but it must take the bitter with the sweet. If it chooses to isolate itself from the public and deal through agents, it must accept the responsibilities that are incurred along with the benefits that accrue.

The judgment of the District Court must be affirmed.

Respectfully submitted,

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By Newman R. Porter
Attorneys for Appellees

CERTIFICATION

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing is in full compliance with those rules.

Newman R. Porter

No. 18891

In the

United States Court of Appeals

For the Ninth Circuit

UNITED STATES FIDELITY AND GUARANTY COMPANY, a corporation,
Appellant,

vs.

STEWART'S DOWNTOWN MOTORS, et al.,
Appellees.

Appeal from the United States District Court for the District of Arizona

Appellant's Reply Brief

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Appellant's Reply Brief

PREFATORY NOTE

References to Appellees' Answering Brief are designated by the letters AB. Footnote references appear in the appendix.

PLAINTIFF'S EXCEPTIONS TO DEFENDANTS' STATEMENT OF THE CASE

Before responding to the authorities and arguments presented by defendants, plaintiff wishes to call the court's attention to five improper aspects of defendants' statement of the case. Rule 18(3) does not authorize defendants to state pure argument under the guise of a statement of the case, and certainly does not authorize

stating the Record inaccurately. Five such misstatements are discussed below.

First: Defendants contend that Copperstate's authority was not specifically defined (AB 2). This statement is either groundless argument or improper statement of fact. Whichever it is, it has no place in defendants' statement of the case. Paragraph 1 of the Agency Agreement grants authority to Copperstate to do certain acts and only certain acts, in clear, precise language.[1] The Agency Agreement limits authority in terms which make defendants' statement totally unjustified.

Second: In attempting to excuse themselves for failure to make the February payment on time, defendants contend:

> "At about the time the payment was due *the entire efforts* of the Stewart employees responsible for making the payment were devoted to a local United Cerebral Palsy Drive and, particularly, to staging a 'telethon' for that charity in Phoenix." (emphasis added) (AB 4)

Reference to the Record proves this statement to be inaccurate.[2] The store was not left totally untended as defendants would have the court believe. It is quite apparent from the portion of the Record footnoted that Mrs. Arnold, Mr. Stewart and Mr. Munson each had spent enough time on the job to devote the five minutes which would have been necessary to mail the February installment to plaintiff.

Secondly, the telethon preparations didn't begin until the last week in February (R. 107). If defendants had mailed the payment any time during that week, it would have been delinquent anyway.

Finally, while plaintiff and its counsel, as members of the public, are appreciative of defendants' devotion to such a worthwile cause, it affords them no excuse for failing to meet their legal obligations.

Third: Counsel then contends that, "The insurance payment was inadvertently overlooked." (AB 4) There is no citation to the Record substantiating this statement, and plaintiff's search fails to uncover any support for it. In fact, review of the Record, which demonstrates that the installments were uniformly delinquent,

gives rise to the almost inescapable inference that this particular payment was no exception to defendants' history of delinquency-by-design rather than by inadvertence.

Fourth: Counsel states that the February payment, which defendants mailed on March 19, was received on March 21; but plaintiff did nothing with regard to the account until March 23 (AB 5). The Record does not indicate when plaintiff received this payment, nor does the Record indicate whether the letter was mailed by defendants on the morning of the 19th or late at night; there is no evidence as to whether the letter was mailed at the Post Office, where pickups were made often, or at a street mailbox serviced infrequently. In any case, defendants' statement that a letter mailed on March 19 would be received on March 21 *"at the latest"* does not follow. It is much more reasonable to infer that the check was received in Baltimore, Maryland, on the 22nd or even on the 23rd. If it was received on either of these days, defendants' March payment was delinquent at the time plaintiff received the February payment.

Fifth: Defendants state that:

> "On April 13, 1962 Appellant's Phoenix office sent a letter to Appellees (received April 16) advising them that *because accidents had occurred* the company would consider the policy cancelled effective March 16." (emphasis added) (AB 6)

The evidence to which defendants refer is Exhibit 8;[3] nowhere in this letter does it state that the company asserted the cancellation "because accidents had occurred."

Defendants' policy was cancelled on March 16, 1962 by The Del Mar Company for non-payment of installments on the note with its letter to defendants under date of March 15, 1962 (Exhibit 5). This was before any accidents had occurred. Defendants' statement in this regard is an obvious and flagrant misstatement of the Record.

These inaccuracies are unbecoming a party who is asking relief from a court of equity.

THE POLICY WAS CANCELLED ON MARCH 16, 1962

At pages 9 and 10 of their brief, defendants dispute the fact that the policy was cancelled. This is an untenable position. Counsel's concession of the cancellation is plain and unambiguous. Furthermore, the cancellation is indisputably established by the evidence (Exhibits 3 and 5).

The issue with respect to the cancellation is not the *fact* of the legal cancellation, but whether or not plaintiff, by the alleged acts of its allegedly authorized agent, is equitably estopped from asserting its legal defense. Whether plaintiff is entitled to assert this cancellation is a separate question and has nothing to do with the *fact* of the cancellation. Equitable estoppel is a matter which defendants have affirmatively asserted; they have the burden of establishing it.

An argument appears at pages 10-13 of Appellees' Answering Brief which concludes with the statement, "The company was contractually bound by the promises and assurances of its *general agent.*" (emphasis added) This is an impressive conclusion, but the argument which precedes it does not accurately state the law. Defendants' conclusion regarding the powers of a general agent was extracted from the passage quoted at AB 11, from 16 Appleman, *Insurance Law and Practice,* § 8691, and the very passage quoted proves the inaccuracy of defendants' conclusion.

Appleman amplified his definition of a general agent in the paragraph which follows the one quoted by defendants.[4] Under Appleman's definition of "general agent," it is abundantly clear that a general agency cannot be created by ostensible authority. The sole question in determining Copperstate's status lies in determining whether the actual authority given to it by plaintiff created the general agency.

The only evidence contained in the Record which bears upon the question of Copperstate's actual authority is the Agency Agreement (Exhibit 2) which makes it clear that Copperstate had no authority to bind the insurer by its own contracts of insurance; all it could do was issue temporary binders. Copperstate could not

issue policies or accept risks on its own initiative. Since it did not have actual authority to do these things, it was not a general agent.

The Agency Agreement between plaintiff and Copperstate (Exhibit 2) sharply limits Copperstate's authority and creates what Appleman refers to as a mere "soliciting agency." Authority to solicit and submit applications falls far short of the discretionary power of a general agent who can, on his own initiative, bind the company to a full-term policy.

Defendants argue that Copperstate had actual authority to issue policies in its own discretion (AB 10). Again, defendants' own reference to the Record disproves their conclusion. Copperstate did not have the discretionary power entrusted to a general agent; it could "issue and deliver" a policy only after the company had authorized that specific policy to be issued and delivered.

Counsel also argues that since Copperstate was required to report to plaintiff each day stating the risks assumed, this gives rise to the inference that Copperstate was authorized to assume risks in its own discretion. This conclusion does not follow. The risks referred to are obviously binder risks and completed full-term policies which have been authorized by the company and executed by the insured.

As to the full-term policies, the Agency Agreement clearly contemplates the following procedure: First, the agent was to solicit an application from the prospective insured and submit this application to the company for approval. The company, if it chose to approve the application, would then grant the agent the authority to prepare the document. No discretion whatsoever reposed in the agent to bind the company to a full-term risk. If the insured wished to enter into the contract of insurance after the company approved the application, and in fact did enter into the contract, the agent was then obliged to notify the company that the contract had been executed.

It is clear from reading the Agency Agreement in its entirety that it was these two types of risks which were contemplated when the contract stated, "a report of risks assumed shall be made to the Company daily."

AUTHORITY TO ISSUE A TEMPORARY BINDER DOES NOT INCLUDE AUTHORITY TO REINSTATE A CANCELLED POLICY

Defendants correctly state that Copperstate had authority to issue a temporary binder contract; we have never disputed this. But binding authority does not create a general agency and it does not include authority to reinstate a cancelled policy.

Counsel next makes the point that "Whether the technical name applied to what Copperstate brought about is a 'binder' or a 'reinstatement' really has little effect upon the legal result." (AB 13) The thrust of defendants' argument is apparently that a binder is the same as a reinstatement and, since Copperstate had binding authority, it also had authority to reinstate the policy. Neither of these statements is supported by authority.

After pointing out that authority to merely bind a risk is usually possessed by a soliciting agent and that this authority does not create a general agency, Appleman comments that both law and common logic support this reasonable result. 16 Appleman, *Insurance Law and Practice,* § 8691. Since it had only the authority to issue temporary binder contracts protecting the applicant for insurance while his application was being passed upon by the comany, Copperstate's status falls squarely within the definition of a "soliciting agent." Copperstate, a soliciting agent, had no discretion which it could have exercised to bind the company to a full-term policy period.

There is a marked distinction between a binder and a reinstatement, both in law and in logic. As Appleman pointed out, almost all soliciting agents have authority to issue temporary binder contracts. But issuance of a binder is not a discretionary act on the part of the agent, while reinstatement of a cancelled policy is highly discretionary. The binder is simply a commitment which the company has authorized the agent to make, extending protection to the insured while the company exercises the necessary discretion in determining whether or not to issue a full-term policy. Since this is a time consuming process, the company has assumed the hazards of accepting the risk "sight unseen" for a very brief

period of time, using the device of the temporary binder contract. Implicit in the use of a binder contract is the conclusion that the company has withheld from the agent any discretionary power as to whether or not the risk should be accepted for a full term. That discretionary function is reserved and performed solely by the company itself.

Reinstatement, on the other hand, is unlike the binder in that it is a highly discretionary act. It involves consideration of whether a risk, which has been terminated because of its unsatisfactory nature, should be reassumed or reinstated in the light of new circumstances.

PLAINTIFF DID NOT CREATE APPARENT AUTHORITY IN COPPERSTATE TO REINSTATE THE POLICY

At pages 13 and 14 of their answering brief, defendants listed five points which allegedly justify their statement that, "Under these circumstances, the general agent's conduct bound the company." Counsel seemingly is discussing apparent authority as contrasted with actual authority. On the same pages, however, he discusses the powers of a general agent. It is quite clear from the authorities cited in this brief and even in Appellees' Answering Brief that a general agency cannot be created by apparent authority. At any rate, even if a general agency could be created by apparent authority, defendants have not demonstrated that such apparent authority existed.

Since the agent cannot create his own apparent authority and since plaintiff did nothing to create apparent authority, Copperstate had none. Plaintiff made this argument on page 16 of its opening brief, but defendants did not respond to it. It seems unnecessary, therefore, to labor the point further in this reply brief. However, we wish to point out one inaccurate statement of the law appearing at page 14 of Appellees' Answering Brief:

> "The question should be decided by an objective examination of what transpired between the company, by its agent on the one hand, and the insured on the other."

Defendants have not correctly stated the test for apparent authority. The question which requires objective examination is, what happened between the company and defendants which justified defendants in believing that Copperstate had actual authority to reinstate the policy. Defendants have not answered this question.

PLAINTIFF NEVER WAIVED CANCELLATION OF THE POLICY

While a cursory reading of the quotations extracted from the authorities cited at pages 15 through 23 of Appellees' Answering Brief may seem to support their position, a critical analysis of the cases themselves shows that some of them support plaintiff and the rest are inapplicable to the issues involved in the case at bar. Since the cases cannot be successfully divided into groups and discussed in categories, plaintiff will discuss most of them on a case-by-case basis.

Counsel quoted extensively from *Exchange Trust Co. v. Capitol Life Ins. Co.,* (D.C.N.D. Okla.) 40 F.2d 687 (1930), affirmed 49 F.2d 133 (10th Circuit 1931), and stated that it supports the proposition that Copperstate's suggestion regarding payment of the delinquent installment amounted to a reinstatement of the policy (AB 15).

Notwithstanding the language quoted by defendants, the court in *Exchange Trust* found in favor of the insurance company. The facts, which are similar to those of the case at bar, are as follows:

The insurance company had issued a policy on the life of a Mr. Johnson who paid the first annual premium. On the due date of the second premium Johnson paid the company $339.00 in cash and executed his promissory note for the balance. The note provided that if it was not paid when due, the policy would be forfeited and would become void. The note was never paid. After the due date, the wife of the insurance company's agent mailed a notice to Mr. Johnson, without the knowledge or authorization of the company, pointing out that payment on the note was past due and it would have to be made if Mr. Johnson wished to have the policy reinstated. Subsequently the company itself wrote a letter to Mr. Johnson stating that the policy had lapsed

because of non-payment of the premium note and requested Mr. Johnson to advise the company whether or not he wished the policy reinstated, and if so, the company would instruct him as to the procedure for reinstatement. Mr. Johnson asked the company for an extension of time in which to pay the note. The company replied by outlining the necessary steps for reinstating the policy. Shortly afterwards, an illness beset Mr. Johnson from which he never recovered; he had not completed the necessary steps. After Mr. Johnson's death, suit was brought on the policy. The company's defense was that the policy had lapsed for non-payment of the premium.

The portion of the opinion which defendants quoted in their answering brief sets out the well established doctrine that a contracting party cannot demand performance of the contract on the one hand and claim a breach on the other. We do not dispute the validity of that doctrine; but in the case at bar, as in *Exchange Trust*, the insurance company was not asserting such an inconsistent position.

The court in *Exchange Trust* found that the request for payment sent by the agent's wife was not an unqualified demand for payment which was binding on the insurer. The trial court also pointed out that the insurance company's conduct did not amount to a waiver of its rights.

The case was appealed from the district court of the Northern District of Oklahoma to the Circuit Court of Appeals for the Tenth Circuit and was affirmed. While the Circuit Court found that the insured had not relied on the notice, the court said that there would have been no recovery even if the insured had relied.

> "But for another all-sufficient reason the notice is unavailing to the executor, and that is it was not authorized by the company. . . . The policy itself provides that the president or other designated officers of the company shall have the sole authority to make or modify the contract . . . and that it shall not be bound by the promise or representation of any other agent or person. The notice did not purport to be and was not so authorized, and it did not bind the company." *Exchange Trust Co. v. Capitol Life Ins. Co., supra.*

Policy language similar to that involved in *Exchange Trust* is involved here.

> ". . .[n]or shall the terms of this policy be waived or changed, except by endorsement issued to form a part of this policy, signed by an authorized representative of the Company." (Exhibit 1).

As must be abundantly clear at this point, plaintiff strenuously denies that Copperstate was an authorized representative of the company in the sense that term is used in declaration 16 (Exhibit 1). However, even if we concede that it was so authorized, *arguendo,* the terms of the policy have still gone unfulfilled since there was no "endorsement issued to form a part of this policy *signed* by an authorized representative" as is required by the policy. (emphasis added)

Therefore, the authority which defendants cited at page 15 of their answering brief fully supports our position in this matter. The case stands for the proposition that nothing the agent says or does can justify the insured's reliance on a course of action which is suggested by the agent if it is explicitly in conflict with the written policy.

Defendants' first quotation on page 16 is probably accurate as an abstract statement of the law, but a critical reading supports plaintiff rather than defendants. The test set out in *Beatty v. Mutual Reserve Fund Life Ass'n.,* 75 F. 65 (9th Cir. 1896), presents the two familiar methods of binding the principal, i.e., by the acts of its actually or apparently authorized agents. We do not dispute the test nor the effect on the principal if the test it met. As has been discussed elsewhere in this brief and in Appellant's Opening Brief, the test has not been met.

Counsel's reply to plaintiff's argument regarding apparent authority states in effect, that simply because plaintiff chose to deal through agents, it apparently vested its agents with authority coextensive with plaintiff's own authority. This does not follow.

It is useless to discuss apparent authority in the abstract. The crux of the matter at hand is whether or not Copperstate had apparent authority *to reinstate the policy* after the cancellation

was effected on March 16, 1962. The first step in determining this question is to look at the facts as they existed on March 19, 1962, the date defendants received the Notice of Cancellation, and to look at these facts as they were seen through the eyes of defendants. Up to this point defendants had had only one direct contact with plaintiff, this being the insurance policy itself (Exhibit 1). The matter is well settled in this state that defendants are fully charged with the knowledge of the contents and provisions of this contract. Item 18 provides that the policy may be cancelled by the named insured by mailing a written notice to the company, stating when thereafter the cancellation shall be effective. The note, signed by an authorized representative of defendants (Exhibit 3), designates Del Mar the agent of defendants for the purpose of cancelling the policy in case there is a default in payments on the note. Such cancellation was effected by defendants through their irrevocably authorized agent, Del Mar, on March 16, 1962 (Exhibit 5) as was admitted by defendants in open court (R. 100, 101).

Item 16 of the insurance contract provides that:

> "16 . . . the terms of this policy [shall not] be waived or changed, except by endorsement issued to form a part of this policy, signed by an authorized representative of the Company." (Exhibit 1)

Thus, even if Copperstate had been an authorized representative of the company, which he clearly was not, as discussed infra, page 10, there was clearly no "endorsement issued to form a part of this policy" which was signed by even an unauthorized representative of the company. *Beatty,* therefore, does not support defendants. Copperstate was not authorized to reinstate the policy, either actually or apparently.

Faris v. American Nat. Assur. Co., 44 Cal. App. 48, 185 Pac. 1035 (1919), from which defendants quote as authority for their position, is a case dealing with matters other than those involved in the case at bar. In *Faris,* the persons with whom the insured dealt had actual as opposed to apparent authority to waive the provisions of the insurance contract. Keeping this point in mind,

plaintiff will not take issue with that portion of the *Faris* case quoted by defendants at page 17 of their answering brief which states, in effect, that the principal can waive any of its rights under the contract. But in the case at bar we are not dealing with an express or implied waiver *by the principal.*

Defendants assert that our acts present a "classic case for application of the doctrine of equitable estoppel as it is understood in Arizona jurisprudence. In *Holmes v. Graves,* 83 Ariz. 174, 318 P.2d 354, 356 (1957) . . ." (AB 18) Reviewing the *Holmes* facts demonstrates that the situation there was starkly different from the case at hand.

Plaintiff, proprietor of a grocery store, brought an action against one of its customers on an open account. This customer had had a charge account at plaintiff's grocery store for a period of 4½ years during which time the following procedure was followed in keeping track of the amount owing. Each time defendant made a purchase at plaintiff's store, the amount owing from that purchase would be entered on a sales pad. The total past balance owing would appear at the top of the pad and the current purchase would be added to it. A running balance was kept in this manner. There was no itemization of the individual items purchased by the customer.

Defendant sent an interrogatory to plaintiff requesting an itemization of each single item that had been purchased during the 4½ month period prior to suit. Plaintiff was, of course, unable to present such an itemized statement since his accounts reflected only the amounts owing rather than the items themselves, even though he was required to do so by Rule 12(f), *Arizona Rules of Civil Procedure.*

The trial court denied defendant's motion to compel plaintiff to present an itemized list of these groceries. The Supreme Court affirmed the trial court's ruling saying that over the period of 4½ years defendants acquiesced in plaintiff's system of keeping the account. The court pointed out that the defense of estoppel is equitable in nature and will not be applied to obtain an unjust result.

Defendants quoted a portion of this decision which lay down the three elements of equitable estoppel.

> "First, acts [by the principal or his agent acting with actual or apparent authority] inconsistent with the claim afterwards relied on. . . ."

Once again plaintiff wishes to point out that we have never denied that the insurer *could* have waived any of its rights under the contract. Had it waived such a right, and had the other elements of estoppel been present, we could not assert that right at a later date. But even if we assume that Copperstate intended to waive the cancellation and reinstate the policy by its telephone conversation with Munson on March 19, 1962, the crucial question is whether or not Copperstate had actual or even apparent authority to waive the right on behalf of plaintiff with regard to this element. This question has been discussed at length elsewhere in this brief and in Appellant's Opening Brief.

> ". . . [S]econd, action by the adverse party on the faith of such conduct. . . ."

We assume that the court meant action *or forbearance* by this second requirement. Even so, this element requires that the forbearance of defendants be made *"on the faith"* of Copperstate's conduct. Certainly defendants could have had no faith in Copperstate's representation from the time it received Del Mar's letter stating that reinstatement would not be requested and the policy remain cancelled. This letter must necessarily have been received by defendants on March 27, 1962 (R. 44), (discussed infra, page 19) three days before the first accident occurred (R. 45). These three days afforded defendants ample time in which to place their insurance elsewhere.

> ". . . [T]hird, injury to the adverse party *resulting from* the repudiation of such conduct." [emphasis added]

This element requires that there be a causal connection between defendants' damages and plaintiff's conduct. Even if Munson's telephone conversation had been with an *actually* authorized representative of plaintiff rather than Copperstate, and even if de-

fendants indisputably relied entirely upon such representation by the authorized agent, no damages would have flowed from that representation because no accidents happened which could have been claims under the policy between the date of the telephone conversation, March 19, and March 27, the date of Del Mar's letter stating that reinstatement would not be requested and the policy remained cancelled.

The first accident occurred fully three days after defendants received Del Mar's letter of March 27, 1962. It is well known that an individual can obtain insurance coverage by binder contract in a matter of minutes with a telephone call to any of numerous insurance salesmen. Certainly the period of three days afforded defendants more than ample time to place this five-minute phone call; therefore, no damages can be said to have flowed from defendants' reliance.

Finally, even if the other three items were present, said the Arizona court, estoppel is applied only when the failure to apply it would result in an unjust and unconscionable result. The nature of the injustice and unconscionability of which the Arizona court speaks, is the situation which existed in *Holmes v. Graves, supra,* where the defendant had unequivocally acquiesced in the grocery store's method of keeping track of the account for over 4 years and then, to escape liability on a clearly just debt, asked plaintiff to comply with the letter of the law when such compliance was patently impossible.

We do not dispute defendants quotations from *Heckman v. Harris,* 66 Ariz. 360, 188 P.2d 991 (1948), and *Onekama Realty Co. v. Carothers,* 59 Ariz. 416, 129 P.2d 918 (1942) as abstract statements of the law any more than we do defendants' quotation from *Holmes v. Graves* commented upon above. The equitable estoppel doctrine unquestionably exists; it is simply inapplicable to the facts of the case at bar.

Defendants cited *Baumann v. Metropolitan Life Ins. Co.,* 144 Wisc. 206, 128 N.W. 864 (1910) as authority for their position (AB 20). This was an action on a life insurance policy by the wife of the insured. The company's defense was cancellation of

the policy pursuant to non-payment of the premium. Plaintiff, the insured's wife, went to defendant's district office in Racine, Wisconsin, and explained to a Mr. Comer, the district superintendent for defendant company, that she thought she had paid the premium before, but she was willing to pay it again in order to avoid cancellation of the policy. Mr. Comer refused to take payment of the premium at that time and explained that he would look into the matter, apparently to see if an accounting error had been made somewhere and whether it would be necessary for her to make another payment of the same premium. A week or so later she spoke to other agents of the company and again tried to urge payment upon them. They also refused to take it but promised to look into the matter. Subsequently, the policy was cancelled on the books of the corporation for non-payment of the premium. The insured died shortly thereafter.

The question which faced the jury was whether or not plaintiff had established the above recited facts by a preponderance of the evidence. There was no question that the individuals with whom plaintiff dealt were authorized by the company to make the statements which they were alleged to have made. The jury found in favor of the plaintiff and thereby impliedly found that plaintiff had sustained her burden in proving the truth of the facts recited above. The appellate court simply affirmed the judgment below on the ground that plaintiff's evidence supporting the judgment was credible and could not be disturbed on appeal. The points conceded by the insurance company in *Baumann* are the very points at issue here.

Defendants cited *Travelers Insurance Co. v. Sindle,* (D.C.W.D. Ark.) 186 F.Supp. 8 (1960) and quoted some dictum from the case. Again, plaintiff does not wish to take issue with the accuracy of the material quoted but points out that it is inapplicable to the case at bar. The court's remarks were confined to the power of a *general* agent.

Furthermore, the court made it clear that the doctrine of estoppel was not quite so ubiquitous a defense as defendants would have us believe. The doctrine of equitable estoppel cannot be

applied to *create* a contract. This is exactly what defendants are urging the court to do. The insurance contract involved in the case at bar was unqualifiedly cancelled in plain language by Del Mar's letter of March 15, 1962 (Exhibit 5).

Counsel's quotation from *Jackson v. M.F.A. Mutual Insurance Company* (D.C.W.D. Ark.) 169 F.Supp. 638 (1959) is also an accurate statement of the law which plaintiff might well have quoted in its own brief. This extract points out the evils which the equitable doctrine of estoppel is intended to cure. We agree that the doctrine should be applied ". . . when it is necessary to prevent *injustice* and *fraud* being perpetrated by insurance companies upon their policyholders. . . ." (emphasis added)

In the case at bar there has been no perpetration or imposition of fraud or injustice upon defendants. If there be such elements in this case at all, it is defendants who are attempting to play both sides of the fence. It is well to remember that cancellation of the policy which plaintiff asserts was made in unqualified terms before any loss occurred under the policy. For business reasons which do not appear in the Record, the policy was irrevocably cancelled. At law, such a cancellation is unassailable. It is adequately and conclusively demonstrated both by the evidence and by counsel's admission (R. 100, 101).

Stivers v. National American Insurance Co., 247 F.2d 921 (9th Cir. 1957), is distinguishable from the case at bar for two distinct reasons. The first is that the agent who made the representations upon which the insured relied was found by the court (without discussion) to be a *general* agent rather than a mere soliciting agent as is involved in the case at bar.

Secondly, the court made the following statement:

> "Where, as here, a general agent of the insurer undertakes to advise a policy holder as to the meaning of a provision of the policy, and what will constitute full compliance therewith, the latter is entitled to rely thereon, *unless such advice is in patent conflict with the terms of the policy.*" (emphasis added)

Thus, the insured is not entitled to rely on representations even of a *general* agent when such reliance is unreasonable under the cir-

cumstances. The "circumstance" which the court was discussing was a conflicting statement in the policy. In the case at bar, the circumstances which make it unreasonable for defendants to have relied on Copperstate's representations is not only the provisions of the policy (discussed infra, pages 10, 11) but also the fact that the policy had been unqualifiedly cancelled.

The last of the long line of cases which defendants have cited in their answering brief is *Occidental Life Insurance Company v. Jacobson,* 15 Ariz. 242, 137 Pac. 869 (1914). This is a well considered opinion by the Arizona court which held that the insurance company was estopped to assert a forfeiture of the policy for non-payment of premium. But the similarity between the *Jacobson* case and the case at bar ends there.

The insured took out a life insurance policy which provided that the annual premium of $155.50 should be paid in advance on the second day of each November. The first and second annual premiums were paid. The company accepted the insured's promissory note as the third payment. This note provided:

> "On the second day of February, 1912, without grace, I promise to pay to the order of the Occidental Life Insurance Company, of Albuquerque, N. M., at its office in Albuquerque, N.M., the sum of one hundred fifty-five and 50-100 dollars with interest at the rate of eight per cent per annum from December 2d, 1911. * * * *"

On February 6, 1912, more than two months after the note became due, the insured paid the sum of $79.80 to the insurance company on account. This payment was accepted by the company and credited to the insured. The remainder of the payment was never paid and the insured died April 11, 1912.

Under those facts it is quite clear that the company had the right to cancel the policy when the insured did not pay the note on December 2, 1911, but it did not do so. Not only did the company refrain from cancelling the policy, but it accepted partial payment on the delinquent note two months after the note was due. This was a clear waiver of the company's right to insist upon a forfeiture for delinquent payment of the note. Plaintiff has never disputed the fact that almost any right, whether inferred by law

or contract, *can* be waived, but there was no waiver in the case at bar.

The statement made by defendants at page 8 of their answering brief, to the effect that after the accidents it became apparent to plaintiff that the policy in question "wasn't such a bargain after all," is totally unjustified but might well have been leveled at the insurance company involved in the *Jacobson* case. In the case at bar the unqualified final cancellation upon which plaintiff relies was made before any accidents occurred and before the fact that the policy might be a questionable bargain came to light. In *Jacobson,* not only did the company waive their forfeiture right by accepting payment two months late, but they also continued their tolerance of the insurer's delinquency without taking any action to either enforce payment or cancel the policy until his death on April 11.

Counsel summarizes his position, at page 24 of Appellees' Answering Brief, by stating that it would be inequitable to allow plaintiff to assert the cancellation of the subject policy. Plaintiff is somewhat nonplussed at defendants' statements. Exhibit 5, which defendants admitted receiving on March 19, 1962, was an unqualified cancellation of the policy. What more was plaintiff obliged to do after the policy was cancelled? How many times do defendants believe that we should have cancelled the policy? On March 27, 1962, again before any accidents had occurred, defendants received Exhibit 6 from Del Mar which was a reaffirmance of the March 16 cancellation. Within a period of 12 days defendants received two notices of the cancellation. Both notices were received before any accidents had occurred.

DEFENDANTS RECEIVED DEL MAR'S SECOND NOTICE OF CANCELLATION ON MARCH 27

Defendants claim to have had some difficulty understanding the argument which appears at page 20-27 of Appellant's Opening Brief. Counsel states that "Appellant's attempt to demonstrate an 'office procedure' of mailing correspondence to Appellees by alluding to a few other occasions certainly is not evidence of an inflexible, routine office procedure." (AB 25)

First of all, the table which appears at page 21 of Appellant's Opening Brief establishes more than an allusion to "a few other occasions." It shows that there were six occasions on which Del Mar mailed notices of one kind or another to defendants. It shows that on all six occasions Copperstate received a copy of this correspondence to defendants. It further shows that defendants admitted receiving the original five of the six times. They claim not to have received the crucial piece, Exhibit 6.

And the Record shows more than what five or six pieces of mail would establish, standing alone. We would agree that five or six pieces of mail would not establish an invariable office procedure if there had been seven or ten or twenty pieces of mail sent by Del Mar to defendants and that, of all these pieces, Copperstate received only six of them. But that is not the case. This office procedure was shown to have been followed inflexibly, *100 per cent of the time.*

Once again, we call the court's attention to *Consolidated Motors, Inc. v. Skousen* discussed at pages 21 and 22 of Appellant's Opening Brief. Defendants have not attempted to respond to that case. The case stands as the current law in the state of Arizona and compels the conclusion that the letter was mailed to defendants.

Counsel then states,

> "But even if it did arise, such presumption or inference would quickly have disappeared with Munson's positive, direct testimony that he, the person responsible for the insurance, did *not* receive it." (AB 25, 26)

Even if the letter had been addressed to Munson rather than Stewart, counsel's statement would not be an accurate statement of the law.

> "There is a strong presumption that a letter properly addressed, stamped and deposited in the United States mail will reach the addressee, and a verdict of a jury or the finding of the court in opposition to this inference of fact, when based on no evidence of non-receipt, is certainly against the weight of the evidence." *Merchants' & Manufacturers' Association v. The First National Bank of Mesa, Arizona,* 40 Ariz. 531, 14 P.2d 717 (1932).

In the portion of Udall, *Arizona Law of Evidence,* quoted in Appellant's Opening Brief, it is stated that this presumption can even overcome evidence of non-receipt. In the case at bar, however, there was *no evidence* of non-receipt. At pages 111 and 115 of the Record, set out in full at page 24 of Appellant's Opening Brief, Mr. Munson carefully stated that *he personally* never saw the letter. In light of the fact that the letter was addressed to Spencer Stewart, it is altogether understandable that Mr. Munson feels free to testify that *he* never saw the letter. Nowhere in the Record does there appear a statement on the part of any of defendants' officers or employees that the letter was not received by Stewart's Downtown Motors, Inc.

Defendants attach significance to the fact that payments on the note were accepted after the cancellation. This is altogether consistent with the contract between the parties and the contract between defendants and Del Mar. It will be remembered that Stewart's Motors had a highly fluctuating risk which depended upon the number of cars it had in its possession and how many of them were on the road during the policy period. The price for contract of insurance was not a fixed number of dollars. It depended upon the size of the risk as reflected at the end of the policy period. The amount of the premium was to be adjusted upwards or downwards at the end of the policy period.

Plaintiff was entitled to have the agreed amount of cash from defendants as security for the payment of a premium which might very well have been substantially in excess of the estimated amount. Therefore, acceptance of the payments on the note was altogether consistent with plaintiff's legal right to this security.

Respectfully submitted,

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By ROBERT H. GREEN
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Attorneys for Appellant

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

BRUCE G. DEBES

(Appendix Follows)

Appendix

1. "The Company hereby grants authority to the Agent in the following territory, viz: Phoenix and vicinity to *solicit and submit applications* for the classes of insurance and fidelity and surety bonds for which a commission is specified in the Commission Schedule which forms a part hereof; to issue and deliver policies, bonds, certificates, endorsements and binders *which the Company may, from time to time, authorize to be issued and delivered;* to collect and receipt for premiums thereon or therefor; to cancel such policies, bonds and obligations in the descretion [sic] of the Agent where cancellation is legally possible; and to retain out of premiums collected and paid over to the Company in accordance herewith, as full compensation on business placed with the Company by or through the Agent, commissions at the rates set forth in said Commission Schedule." (emphasis added) *Agency Agreement* (Exhibit 2) Paragraph 1.

2. "A. The office was pretty confused about that time. Mrs. Arnold was General Chairman of Telethon for the United Cerebral Palsy Association, which Telethon occurred on March 3rd and 4th, and for several weeks prior to that *practically all* of *her* time, and *considerable* time of *some* of the rest of us, were devoted to that Telethon.

"Q. Did Mr. Stewart spend any time with respect to this organization?

"A. Mr. Stewart is National Vice President of United Cerebral Palsy Association, and he personally gave *much time* to this event.

"Q. Did you personally devote any time to this deal?

"A. *Some,* yes." (emphasis added) (R. 107)

3. CARBON COPY

UNITED STATES FIDELITY AND GUARANTY COMPANY
3424 NORTH CENTRAL AVENUE
PHOENIX 12, ARIZONA

April 13, 1962

Registered Mail

Stewart's et al
800 N. Central Avenue
Phoenix, Arizona

Attention: Spencer Stewart

Re: Policy No. CLP 69624

Gentlemen:

We have received notice from you regarding certain accidents that have occurred since March 17, 1962.

Our records indicate that your insurance coverage terminated for failure to pay premium as of March 16, 1962 and was not reinstated.

I am sending a copy of this letter to your agent, Copperstate Insurance Agency.

Yours truly,

/s/ Charles L. Blute

Charles L. Blute
Superintendent
Claims Department

CLB:jr
cc: Copperstate Insurance

(Exhibit 8)

4. "It is important not to reason backward in applying such a test. Thus, to take a soliciting agent who can merely solicit applications, deliver policies, or do other acts, and say brashly

that he was apparently vested with ostensible authority to bind the insurer by his contract, that the insured was justified in relying thereon, that the agent was, therefore, a general agent, and because of that had the power to bind the insurer by his contract, is a mere circumlocution of logic which would permit the court in any case desired to find a general agency. *A general agency cannot be based upon implied, apparent, or ostensible authority.* There must be *actual* authority to bind the insurer by the issuance of a policy or the completion of a contract. If such actual authority exists, the other powers of a general agent necessarily co-exist upon which the insurer can be bound in other ways. If such actual authority does not exist, the agent is not a general agent, regardless of his ostensible powers, and the insurer could be bound by his contracts of insurance only through the doctrines of waiver, estoppel, or ratification." (emphasis added) Appleman, *Insurance Law and Practice,* § 8691.

No. 18896

United States Court of Appeals

for the Ninth Circuit.

EVELYN KASSAB,

Petitioner,

v

IMMIGRATION AND NATURALIZATION SERVICE, UNITED STATES DEPARTMENT OF JUSTICE,

Respondent.

PETITIONER'S OPENING BRIEF

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No. 18896

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IMMIGRATION AND NATURALIZATION SERVICE,
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Respondent.

PETITIONER'S OPENING BRIEF

JURISDICTION OF THE COURT

The jurisdiction of this Court is based on 8 USC, § 1105a, as amended. The United States Court of Appeals has exclusive jurisdiction over a petition for review of an order of deportation. The venue shall be in the judicial circuit in which

[Pet. designates Petition for Review; TR. designates Transcript of Record.]

the administrative proceedings were conducted or the residence of the petitioner.

Petitioner at all times concerned in these proceedings has been a resident of the County of Los Angeles and the proceedings before the Special Inquiry Officer were had in Los Angeles, California. [TR. pp. 44-47; 56; Pet. p. 2].

Petitioner duly took an appeal to the Board of Immigration Appeals seeking to vacate the Order of Deportation issued against her and asked that the matter be remanded to the District Director; on August 16, 1963 the Board of Immigration Appeals made an Order dismissing the appeal. [TR. pp. 3-5].

STATEMENT OF THE CASE

Petitioner is a native of Iraq and citizen of Israel, who was admitted to the United States on or about July 23, 1958 in the status of a non-immigrant going in transit through the United States. [TR. p. 6].

On November 12, 1958 her status was adjusted to a permanent resident of the United States and on March 13, 1962 her status as a permanent resident was rescinded by the District Director of the Immigration Service at Los Angeles. [TR. p. 6].

An appeal was taken to the Regional Commissioner who on May 7, 1962 affirmed the revocation decision of the

District Director and dismissed the appeal. [TR. p. 7].

Exhibit 6, introduced at the hearing before the Special Inquiry Officer, was a letter from the District Director dated May 16, 1962 addressed to the petitioner to the effect that the appeal was denied and stated THERE WAS NO FURTHER APPEAL AVAILABLE (emphasis ours). [TR. pp. 64-65; 87].

At the hearing before the Special Inquiry Officer, Petitioner through her counsel attacked the validity of the rescission proceedings and sought to show that the conclusion reached was in error in that petitioner was in fact entitled to her permanent resident status. This was denied to petitioner by the Special Inquiry Officer. [TR. pp. 74-75].

SPECIFICATION OF ERRORS

1. The Immigration Service committed error when it informed petitioner that "there is no further appeal available," when she was entitled to judicial review.

2. The Special Inquiry Officer erred in denying to petitioner the opportunity of showing that she was entitled to her permanent resident status.

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ARGUMENT

Petitioner is 27 years of age living with her husband and minor child in Los Angeles County, the child having been born in Los Angeles, thereby being a natural born citizen of the United States. [Pet. p. 2].

When the Immigration Service informed petitioner on May 16, 1962 that her appeal was denied and that "there is no further appeal available", she relied on it. The result was she did not have the opportunity to have the matter passed on by the courts to determine if the decisions of the District Director and the ruling of the Regional Commissioner were correct or justified.

In view of all of the circumstances of the case, petitioner should have been allowed the opportunity of showing that the conclusion reached in the rescission proceedings was erroneous and that in fact she was entitled to her permanent resident status.

The record discloses that petitioner obtained a visa from the Legation of Mexico in Tel Aviv, Israel on July 11, 1958 to go to Mexico City, Mexico and meet her relative there. On July 7, 1958 a Transit visa #TVL-189 was issued to petitioner by the American Embassy at Tel Aviv, Israel. On July 23, 1958 petitioner entered the United States as a non-immigrant through the Port of New York to go in transit to Mexico. [TR. p. 93].

Petitioner had no intention of remaining in the United States when she entered on July 23, 1958. Her sole purpose was to go to Mexico until she saw her sponsor, who was looking for a nurse for his children and offered her a nursing position. She accepted it and worked for her sponsor as a children's nurse. [Pet. p. 3].

A certificate was issued to her by the Tel-Hashomer Hospital showing she had been a registered nurse employed by the hospital in the childrens' ward from 1953 until April, 1958. [Pet. p. 4].

Letters were filed with the Immigration Service attesting to petitioner's contention that she was entitled to her permanent resident status. [TR. pp. 96-100; Vol. II, pp. 7-9].

Fair play requires that semantics not be permitted to thwart common sense or justice. Immigration Service now contends that when it stated "there is no further appeal available" it meant there was no further administrative appeal allowed. However, if that is what the Service meant it should have so stated. Petitioner had a right to believe and did believe, that when she received an official communication from an agency of the United States government stating that "there is no further appeal available", it meant she had exhausted her remedies.

The Service was not required to make the statement;

since it took the initiative to make the statement, fairness would require it to inform petitioner that even though there was no further administrative appeal, she had recourse to the courts.

It is clear petitioner was misled, and therefore is entitled to have the matter re-opened so she may exhaust all of her remedies and have her rights protected.

Counsel for petitioner has not been able to find a case in point which would be of assistance to the Court in determining whether the final Order of Deportation is valid under the circumstances which occured in this situation. Counsel respectfully submits that this Court should establish the principle which will allow a reversal of the Order of the Immigration Service so that a full and complete opportunity will be afforded petitioner to establish her right to remain in the United States as a permanent resident.

To uphold the deportation Order would be an invasion of human rights. She should not be separated from her infant son who is an American citizen and she should not be required to remove her son, an American citizen, from the shores of the United States.

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C O N C L U S I O N

Based on the foregoing principles it is urged that the Court review the decision ordering the deportation of petitioner and that on the review should remand the case to the District Director for further proceedings so that (1) she may establish her right to remain in the United States as a permanent resident and (2) that there may be a court review of the decision revoking her status as a permanent resident.

Respectfully submitted,

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By: MURRAY M. CHOTINER

Attorneys for Petitioner.

CERTIFICATION

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

/s/ _____

Murray M. Chottiner
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No. 18896

IN THE

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FOR THE NINTH CIRCUIT

EVELYN KASSAB,

Petitioner,

vs.

IMMIGRATION AND NATURALIZATION SERVICE, UNITED STATES DEPARTMENT OF JUSTICE,

Respondent.

BRIEF FOR RESPONDENT.

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No. 18896

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

EVELYN KASSAB,

Petitioner,

vs.

IMMIGRATION AND NATURALIZATION SERVICE, UNITED STATES DEPARTMENT OF JUSTICE,

Respondent.

BRIEF FOR RESPONDENT.

Jurisdiction.

On September 15, 1963 petitioner filed in this Court's Petition For Review of Deportation Order praying that the deportation order against her be vacated and set aside and that she be granted all proper relief. The deportation order against petitioner is a final order of deportation issued pursuant to Section 242(b) of the Immigration and Nationality Act; and this Court has jurisdiction to review such an order under the provisions of Section 106(a) of that Act, as added by Public Law 87-301, 75 Stat. 651, 8 U. S. C. A. Section 1105a(a). However, it may at least be questioned whether petitioner's challenge to her deportation order is bona fide, or whether instead her only real complaint is against the underlying administrative deter-

mination rescinding her adjustment of status pursuant to Section 246(a) of the Immigration and Nationality Act. In the latter event, some doubt as to the jurisdiction of this court to review either the rescission proceedings or the deportation proceedings may exist.

The decisions of the Seventh Circuit would undoubtedly lead to the conclusion that this Court has original jurisdiction under Section 106(a) to review rescission proceedings under Section 246(a) where, as here, deportation is dependent upon rescission [*Blagaic v. Flagg,* 304 F. 2d 623 (7th Cir. 1962); *Roumeliotis v. Immigration and Naturalization Service,* 304 F. 2d 453 (7th Cir. 1962), cert. den. 371 U. S. 921]. Prior decisions of this Court, however, might lead to a different result [*Cf. Arreche-Barcelona v. Immigration and Naturalization Service,* 310 F. 2d 690 (9th Cir. 1962); *Holz v. Immigration and Naturalization Service,* 309 F. 2d 452 (9th Cir. 1962)]. The Supreme Court of the United States, in the recent decision of *Foti v. Immigration and Naturalization Service,* ..... U. S. ..... [32 L. W. 4049, Dec. 16, 1963], indicated a preference for the broad interpretation of Section 106(a) adopted by the Seventh Circuit; although the facts of the *Foti* decision do not control the case at bar.

If petitioner has made a bona fide challenge to the deportation order itself, jurisdiction to review the collateral determination rescinding her adjustment of status might also be sustained under the doctrine of pendent jurisdiction [*Cf. Romero v. International Terminal Op-*

erating Co., 358 U. S. 354, 380-381 (1950); *Hurn v. Oursler,* 289 U. S. 238 (1933); *Taussig v. Wellington Fund, Inc.,* 313 F. 2d 472 (3d Cir. 1963)]. In *Lefson v. Esperdy,* 211 F. Supp. 769 (S.D. N.Y. 1962), where plaintiff sought judicial review of both an order of deportation and a denial of her application for adjustment of status to that of a permanent resident, the district court, applying the concept of pendent jurisdiction, transferred the entire case to the Court of Appeals pursuant to Public Law 87-301. And in *Ungo v. Beechie,* 311 F. 2d 905 (9th Cir. 1963), cert. den. 373 U. S. 911, this Court reviewed, under Section 106 of the Immigration and Nationality Act, both the adjudication of deportability and the denial of discretionary relief under Section 212(c) of the Act.[1]

Moreover, the order rescinding petitioner's adjustment of status became a part of, and was in effect swallowed up by, her deportation proceedings. Review of the rescission order may therefore be justified by analogy to the provisions of Section 10(c) of the Administrative Procedure Act, 5 U. S. C. A. § 1009(c), which provides in part:

> "* * * Any preliminary, procedural, or intermediate agency action or ruling not directly reviewable shall be subject to review upon the review of the final agency action. * * *"

---

[1]In *Ungo v .Beechie, supra,* the original jurisdiction of this Court to review the denial of discretionary relief was challenged for the first time when petitioner sought certiorari [See 31 L. W. 3367]. In opposing certiorari the Government advanced the doctrine of pendent jurisdiction.

Acceptance of jurisdiction by this Court to review all issues presented herein would be consonant with the Congressional purposes underlying Section 106 "to create a single, separate, statutory form of judicial review of administrative orders for the deportation and exclusion of aliens from the United States," to preclude exploitation of the judicial process for purposes of delay, and to avoid repetitive appeals to the busy and overworked courts with frivolous claims of impropriety in the deportation proceedings [See, House Report 1086, 87th Cong., 1st Sess. 1961, U. S. Code Congressional and Administrative News, pp. 2960-2970; see also, *Foti v. Immigration and Naturalization Service, supra,* at 32 L. W. 4052].

Statement of the Case.

Petitioner is an alien, a native of Iraq and a citizen of Israel [I-R. 79, 55].[2] She was admitted to the United States on or about July 23, 1958 at New York, New York, in the temporary status of a nonimmigrant going in transit through the United States to Mexico [I-R. 79, 80, 56].

On August 26, 1958 petitioner filed an application for status as a permanent resident under Section 245 of the Immigration and Nationality Act, basing her eligibility

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[2]The record in this case consists of two volumes. The first volume contains the deportation proceedings relating to petitioner, and its pages have been numbered consecutively from 1 through 101. Reference to page number of this volume will be indicated "I-R." The second volume contains the rescission proceedings relating to petitioner, except for that portion of the rescission proceedings contained in the deportation record. The pages of the second volume have been numbered consecutively from 1 through 38; and references to these pages will be indicated "II-R." References to Petitioner's Opening Brief will be indicated "Br."

for a preference quota status upon the claim that she was a registered nurse [II-R. 36, item 36]. On September 5, 1958 Charles Brent submitted a visa petition on behalf of petitioner, in which he also stated that she was a registered nurse [II-R. 37, item 5]. On September 16, 1958 the District Director approved said visa petition to accord petitioner a first preference status under Section 203(a) (1) (A) of the Immigration and Nationality Act [II-R. 36, 38]; and on November 12, 1958 petitioner's status was adjusted to that of a permanent resident of the United States [I-R. 8, 56].

On March 13, 1962 the District Director, after notice and hearing, ordered that the status of permanent residence granted to petitioner on November 12, 1958 be rescinded, finding that petitioner had failed to overcome the evidence compiled against her that she was not a registered nurse, and concluding that petitioner was not entitled to a first preference classification and was not eligible for the adjustment of status granted her on November 12, 1958 [I-R. 85]. On May 7, 1962 this decision of the District Director was affirmed on appeal by the Regional Commissioner [I-R. 89-90]; and by letter dated May 16, 1962 the District Director sent petitioner a copy of the Regional Commissioner's decision and informed her, among other things, that "There is no further appeal available to you."

On March 25, 1963 an Order To Show Cause and Notice of Hearing was issued by the Immigration and Naturalization Service charging that petitioner was sub-

ject to deportation pursuant to the following provisions of law [I-R. 79]:

> "Section 241 (a) (2) of the Immigration and Nationality Act, in that, after admission as a non-immigrant under Section 101 (a) (15) of said act you have remained in the United States for a longer time than permitted."

Pursuant to the aforementioned Order To Show Cause a deportation hearing was held at Los Angeles, California on April 1, 1963, April 18, 1963, and April 23, 1963 [I-R. 48-78]. At this hearing petitioner sought to present evidence tending to show that the determination rescinding her adjustment of status was in error; however, the special inquiry officer sustained an objection to this evidence, ruling that he had no authority to go behind the decision made in the rescission proceedings [I-R. 74, 45].

On April 23, 1963 the special inquiry officer who presided at petitioner's deportation hearing rendered his oral decision [I-R. 44-47, 77], ordering that petitioner be deported from the United States to Israel on the charge contained in the Order To Show Cause [I-R. 47]. Petitioner appealed the decision of the special inquiry officer to the Board of Immigration Appeals; and on August 16, 1963 the latter Board rendered its decision [I-R. 3-5], ordering petitioner's appeal dismissed [I-R. 5].

Issues Presented.

1. Did the special inquiry officer err in refusing to allow petitioner to challenge, during her deportation hearing, the determination rescinding her adjustment of status?

2. Was the information given petitioner, that no further appeal was available, erroneous?

3. If the information given petitioner, that no further appeal was available, was erroneous, was it also prejudicial?

4. Is the order rescinding petitioner's adjustment of status supported by sufficient evidence?

Statutes Involved.

1. Section 245 of the Immigration and Nationality Act, 8 U. S. C. A. §1255, provided in part on November 12, 1958 when petitioner's status was adjusted to that of a permanent resident:

> "SEC. 245. (a) The status of an alien who was admitted to the United States as a bona fide nonimmigrant may be adjusted by the Attorney General, in his discretion and under such regulations as he may prescribe, to that of an alien lawfully admitted for permanent residence if (1) the alien makes an application for such adjustment, (2) the alien is eligible to receive an immigrant visa and is admissible to the United States for permanent residence, (3) an immigrant visa was immediately available to him at the time of his application, and (4) an immigrant visa is immediately available to him at the time his application is approved. A quota immigrant visa shall be con-

sidered immediately available for the purposes of this subsection only if the portion of the quota to which the alien is chargeable is under-subscribed by applicants registered on a consular waiting list.

"(b) Upon the approval of an application for adjustment made under subsection (a), the Attorney General shall record the alien's lawful admission for permanent residence as of the date the order of the Attorney General approving the application for the adjustment of status is made, and the Secretary of State shall reduce by one the quota of the quota area to which the alien is chargeable under section 202 for the fiscal year current at the time such adjustment is made.

* * *"

2. Section 246 of the Immigration and Nationality Act, 8 U. S. C. A. §1256, provides in part:

"(a) * * * If, at any time within five years after the status of a person has been otherwise adjusted under the provisions of section 245 or 249 of this Act or any other provision of law to that of an alien lawfully admitted for permanent residence, it shall appear to the satisfaction of the Attorney General that the person was not in fact eligible for such adjustment of status, the Attorney General shall rescind the action taken granting an adjustment of status to such person and cancelling deportation in the case of such person if that occurred and the person shall thereupon be subject to all provisions of this Act to the same extent as if the adjustment of status had not been made.

* * *"

3. Section 203(a) of the Immigration and Nationality Act, 8 U. S. C. A. §1153(a), provided in part on November 12, 1958:

> "SEC. 203. (a) Immigrant visas to quota immigrants shall be allotted in each fiscal year as follows:
>
> (1) The first 50 per centum of the quota of each quota area for such year, plus any portion of such quota not required for the issuance of immigrant visas to the classes specified in paragraphs (2) and (3), shall be made available for the issuance of immigrant visas (A) to qualified quota immigrants whose services are determined by the Attorney General to be needed urgently in the United States because of the high education, technical training, specialized experience, or exceptional ability of such immigrants and to be substantially beneficial prospectively to the national economy, cultural interests, or welfare of the United States, and (B) to qualified quota immigrants who are the spouse or children of any immigrant described in clause (A) if accompanying or following to join him.
>
> * * *"

ARGUMENT.

I.

The Special Inquiry Officer Did Not Err in Refusing to Allow Petitioner to Challenge, During Her Deportation Hearing, the Determination Rescinding Her Adjustment of Status.

At her deportation hearing petitioner sought to present evidence tending to show that the determination rescinding her adjustment of status was in error [I-R. 74]. An objection by the trial attorney to this line of questions was sustained by the special inquiry officer; who ruled that he had no authority to go behind the decision made in the rescission proceedings, originally by the District Director, and on appeal by the Regional Commissioner [I-R. 74; see also decision of special inquiry officer at I-R. 45].

Respondent submits that this ruling of the special inquiry officer was correct. Detailed regulations of the Attorney General govern the procedure for rescission of adjustment of status [See 8 C. F. R. Part 246]. When petitioner's status as a permanent resident was rescinded, the power to do so resided in the district director with a right of appeal to the regional commissioner [See, former 8 C. F. R. 246.11, *et seq.,* 22 F. R. 9801, as amended by 23 F. R. 9124]. At that time,[3]

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[3]Effective November 5, 1962 the procedure for rescission of adjustment of status was revised, so that rescission is now adjudicated by a special inquiry officer with a right of appeal to the Board of Immigration Appeals [See, 8 C. F. R. 246.1. *et seq.,* 27 F. R. 10789-10790; see also 8 C. F. R. 3.1 (b) (8), 27 F. R. 10789]. However, this amendment should in no way affect rescissions which had become final prior to November 5, 1962 [Cf. *Antonio Rodriguez Silva v. Harlan B. Carter,* ..... F. 2d. ..... (9th Cir. No. 18,560, Dec. 30, 1963)—not yet reported; see page 11 of slip opinion].

no authority was given to special inquiry officers to pass upon rescission; and where the Attorney General has by regulation specifically delegated certain authority to particular officers, that authority may not be exercised by other officers, even though the latter may have general authority with respect to immigration matters [*Cf. Matter of DeG— et al.,* 8 I & N Dec. 325, 334 (Atty. Gen. Dec. 14, 1959); see also, *Matter of A—,* 6 I & N Dec. 242, 244 (Bd. Imm. App. July 26, 1955)]. *A fortiori,* the special inquiry officer presiding at petitioner's deportation hearing would have no authority to *set aside* a determination made by officers of the Immigration and Naturalization Service who have been specifically authorized to make that determination.

II.

The Information Given Petitioner, That No Further Appeal Was Available, Was Not Erroneous; But in Any Event, It Was Not Prejudicial.

On May 16, 1962 the District Director sent a letter to petitioner reading in part as follows [I-R. 87]:

> "I refer to my order dated March 13, 1962 wherein I rescinded the status of permanent resident you acquired on November 12, 1958 and your subsequent appeal to this decision.
>
> "The Regional Commissioner has upheld my decision and dismissed your appeal. A copy of his order is attached. There is no further appeal available to you."

Petitioner contends that "The Immigration Service committed error when it informed petitioner that 'there is no further appeal available,' when she was entitled to judicial review" (Br. 3, 4). This contention is unsound. The word "appeal" as used by the District Di-

rector obviously referred to an administrative appeal; and as discussed in Part I, *supra*, petitioner's right of administrative appeal ended with the decision of the Regional Commissioner. The word "appeal" does not generally connote judicial review of administrative proceedings.

In any event, petitioner was in no way prejudiced by the statement of the District Director, since the right to court review is still available to her. As discussed under Jurisdiction, *supra*, this Court may have original jurisdiction to review the administrative determination rescinding petitioner's adjustment of status. However, if this Court is without jurisdiction, judicial review may be had in the district court [See, *Quintana v. Holland,* 154 F. Supp. 640 (E.D. Pa. 1957), reversed on other grounds 255 F. 2d 161 (3d Cir. 1958)].

III.

The Order Rescinding Petitioner's Adjustment of Status Is Supported by Sufficient Evidence.

Under Section 246(a) of the Immigration and Nationality Act rescission of adjustment of status is required if "it shall appear to the satisfaction of the Attorney General that the person was not in fact eligible for such adjustment of status"; and the court in *Quintana v. Holland,* 255 F. 2d 161 (3d Cir. 1958) made the following comment concerning such language (p. 164):

> "* * * We think that something appearing to an officer's 'satisfaction' means that he must have something more than a hunch about it, or even more than that he may be convinced in his own mind. We think it means a reasonable determination made in good faith after such investigation and hearing as is required. * * *"

Respondent submits that the order of rescission is supported by sufficient evidence, under the standard quoted above, or even under the standard of "reasonable, substantial, and probative evidence" applicable in deportation proceedings[4] [See, Section 242(b)(4), of the Immigration and Nationality Act, 8 U. S. C. A. §1252(b)(4)]. Even in deportation proceedings, a court will not, in determining whether substantial evidence exists, substitute its judgment for that of the immigration authorities [*Ocon v. Del Guercio,* 237 F. 2d 177, 181 (9th Cir. 1956); *United States v. Butterfield,*

---

[4]Respondent does not, by this assertion, concede that "reasonable, substantial, and probative evidence" is required to support an order of rescission under Section 246(a); since Congress apparently contemplated that rescission would be a more informal proceeding than deportation. *In Matter of S—,* 9 I & N Dec. 548, 551 (Atty. Gen. Jan. 22, 1962), the Attorney General observed (p. 555, footnote 8):

> "* * * The rescission procedure apparently resulted from congressional recognition that a means more informal and expeditious than deportation was needed to correct mistakes made in granting permanent residence to nonimmigrant aliens through adjustment of status. Experience under preexamination had shown that such mistakes were more likely to occur where eligibility for permanent resident status was determined by government officers located in the United States who did not ordinarily have the first-hand information available to American consuls located in a prospective immigrant's native country. See S. Rept. No. 1515, 81st Cong., 2d Sess., p. 606 (1950). This view of rescission is borne out by the fact that section 246 in authorizing rescission does not provide the explicit and detailed procedural requirements laid down for deportation proceedings by section 242-(b) of the Act (8 U.S.C. 1252(b)). At the same time Congress must have been aware that rescission by returning the alien to nonimmigrant status, in fact, established his deportability on the ground that he had overstayed the period of his admission. * * * I should note in passing that while Congress may have *permitted* the Attorney General to make use of more informal procedures in rescission, in practice under the governing regulation there is little difference between the safeguards afforded an alien in deportation and that afforded him in rescission. See 8 CFR 246.12(a) and (b)." [Emphasis of the Attorney General].

223 F. 2d 804, 810-811 (6th Cir. 1955); *Taranto v. Haff,* 88 F. 2d 85, 86 (9th Cir. 1937); *Alexander v. Butterfield,* 150 F. Supp. 75, 78 (E. D. Mich. 1957); *In re Cartellone,* 148 F. Supp. 676, 681 (N. D. Ohio 1957), affirmed *sub nom Cartellone v. Lehmann,* 255 F. 2d 101 (6th Cir. 1958), cert. den. 358 U. S. 867]; nor will a court weigh the evidence [*Lattig v. Pilliod,* 289 F. 2d 478 (7th Cir. 1961)].

When petitioner applied for adjustment of status on August 26, 1958 she claimed preference quota status by reason of the fact that she was a registered nurse [II-R. 34, see item 36]; a similar claim was made in the visa petition filed on her behalf [II-R. 36-37]; and petitioner was accorded a first preference status under Section 203(a) (1) (A) of the Immigration and Nationality Act based upon the claimed fact that she was a registered nurse.

At the time of petitioner's application for adjustment of status, she claimed to have been employed at the Government Hospital at Tel-Hashomer, Tel Aviv, Israel as a children's nurse from July, 1953 to April, 1958 [II-R. 32, see item 14]; and in support of her application submitted a letter dated July 7, 1958 purportedly signed by one "Yheskel Aharoni" as "Hospital Director". This letter, bearing the salutation "To whom it may concern", stated [II-R. 17]:

> "This is to certify that Miss Evelyn Smouha has been a registered nurse, employed by this hospital, children's ward, since 1953, until April, 1958.
> Her work has been diligent and satisfactory throughout her employment."

However, on June 14, 1961, I. Hahari, Head of the Personnel Department, Tel-Hashomer Government Hospital, Israel, executed an affidavit before the American Consul at Tel Aviv, Israel, wherein he stated [II-R. 18]:

> "I, I. Hadari, Head of the Personnel Department of Tel Hashomer Government Hospital in the State of Israel do hereby certify that I have searched the employment records of this hospital and have found no record of employment of a nurse by the name of Miss Evelin Samahu (or Smouha) nor has there ever been a Hospital Director by the name of Yheskel Aharoni at this institution.
>
> Further, the stationery on which the statement of Mr. Aharoni is made is not, and has never been, the official stationery, in that there is no official letter-head thereon; however, it appears that the stamp of the hospital on the paper is genuine."

Upon being questioned on October 3, 1961 petitioner admitted having presented in support of her application for adjustment of status the letter purported signed by "Yheskel Aharoni" [II-R. 23]. Petitioner also admitted that she "was never employed directly by this hospital" [II-R. 23]; although she claimed that she was employed by the Government of Israel at the Tel Hashomer Camp [II-R. 23]. In addition, petitioner admitted that she "was primarily a seamstress" at this military camp [II-R. 24]; although she claimed that she "would some times go to the hospital and work for Mrs. Regina Jacob who was a trained nurse and she would show me how to care for the children and other functions of the hospital" [II-R. 23].

Thus, petitioner's own admissions, coupled with the affidavit of I. Harari quoted above [II-R. 18] show that the letter dated July 7, 1958 [II-R. 17] submitted by petitioner in support of her application for adjustment of status, was false in several respects. It was not necessary, however, to establish fraud on petitioner's part, in order to justify rescission of her adjustment of status. It was only necessary for it to "appear to the satisfaction of the Attorney General" that petitioner was not in fact a registered nurse as she claimed, and thus was not entitled to the first preference quota status accorded her. Respondent submits that this test has been met, by "reasonable, substantial, and probative evidence", if such is required.

Conclusion.

Wherefore, for the reasons set forth above, it is respectfully submitted that this Court should render a decision in favor of the respondent and against the petitioner, upholding the order rescinding petitioner's adjustment of status and upholding the order of deportation outstanding against her, if the jurisdiction of this Court to do so is found to exist; but if jurisdiction of this Court is found not to exist, dismissing the Petition For Review of Deportation Order filed herein.

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Certificate.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

James R. Dooley,
Assistant United States Attorney.

No. 18897

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JOSEPH RUIZ,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

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sion shall be deemed sufficient evidence to authorize conviction unless the defendant explains his possession to the satisfaction of the jury.

As used in this section, the term 'marihuana' has the meaning given to such term by section 4761 of the Internal Revenue Code of 1954.

For provision relating to sentencing, probation, etc., see section 7237(d) of the Internal Revenue Code of 1954. Feb. 9, 1909, c. 100, §2(h), as added July 18, 1956, c. 629, Title I, § 106, 70 Stat. 570."

III.

Statement of Case.

A. Questions Presented.

Appellant's application for a Writ of Habeas Corpus to the United States District for the Southern District of California alleged in substance that Section 176(a) of Title 21, United States Code was unconstitutional because it constituted a "conspiracy to defraud and commit a violation of law"; "constituting self-incrimination"; and "inducement to commit entrapment". Appellant also asserted generally that Section 176(a) of Title 21, United States Code was unconsitutional for the additional reason that it constituted "illegal searches and seizures, 4th Amendment of the Constitution of the United States."

Appellant sets forth under the heading *Questions Presented* [at page 11 of his brief] the following:

> "(1) In that the appellant would have been compelled to testify against himself in order to comply with Title 21, U.S.C. section 176(a), wouldn't such then represent self-incrimination and thus violate the constitutional provisions of the fifth amendment provided against such?

(2) Being that the provisions and stipulations directly and indirectly concerning section 176(a), 21 U.S.C., (dealing with the burden of providing sufficient evidence to establish a violation of said section), constitute, compel and cause a resulting conspiracy (by the authorities) to defraud and commit a violation of law in order to obtain a violation of said section, than doesn't such also violate the fifth amendment of the constitution of the United States 'Due process of law'?"

It is noted that appellant's brief does not contain a "Specification of Errors relied upon" denominated as such as required by the rules of this Court,[1] and this Court has held that in the absence of such a specification an appeal presents nothing for review.[2]

The brief of appellant proceeding *in propria persona,* does contain two "Questions presented" which appear to be a restatement of the four "Issues Involved" as presented in appellant's application for a Writ of Habeas Corpus. These specifications, as is set out in appellant's "Notice of Appeal", "All attack the asserted unconstitutionality of subsection 176(a) of Title 21, U. S. C. and *not* the procedure of trial and sentencing". Thus it appears that the sole question raised by appellant is the constitutionality of Section 176(a) of Title 21, United States Code.

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[1]Rules of the U. S. Court of Appeals for the Ninth Circuit, Rule 18.

[2]*Herrera v. United States,* 280 F. 2d 888 (1960); *Pinkston v. United States,* 278 F. 2d 833 (1960).

No. 18897

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

JOSEPH RUIZ,

Appellant,

vs.

UNITED STATES OF AMERICA,

Appellee.

APPELLEE'S BRIEF.

I.

Statement of Pleadings and Facts Disclosing Jurisdiction.

On June 11, 1963 the appellant Joseph Ruiz filed an application for a Writ of Habeas Corpus with the United States District Court for the Southern District of California. [C. T. 2.]

On June 13, 1963 the Honorable Harry C. Westover, United States District Judge filed an Order of Dismissal denying appellant's Application for a Writ of Habeas Corpus. [C. T. 45.]

On July 9, 1963 appellant filed a Notice of Appeal. [C. T. 47.]

The jurisdiction of the United States District Court was based upon Section 2241 of Title 28, United States Code.

The jurisdiction of the United States Court of Appeals for the Ninth Circuit was based upon Sections 2241, 1291 and 1294 of Title 28, United States Code.

II.

Statutes Involved.

Section 176(a) of Title 21 United States Code provides as follows:

> "§ 176a. Smuggling of marihuana; penalties; evdence; definition of marihuana
>
> Notwithstanding any other provision of law, whoever knowingly, with intent to defraud the United States, imports or brings into the United States marihuana contrary to law, or smuggles or clandestinely introduces into the United States marihuana which should have been invoiced, or receives, conceals, buys, sells, or in any manner facilitates the transportation, concealment, or sale of such marihuana after being imported or brought in, knowng the same to have been imported or brought into the United States contrary to law, or whoever conspires to do any of the foregoing acts, shall be imprisoned not less than five or more than twenty years and, in addition, may be fined not more than $20,000. For a second or subsequent offense (as determined under section 7237(c) of the Internal Revenue Code of 1954), the offender shall be imprisoned for not less than ten or more than forty years and, in addition, may be fined not more than $20,000.
>
> Whenever on trial for a violation of this subsection, the defendant is shown to have or to have had the marihuana in his possession, such posses-

IV.

Summary of Argument.

A. Section 176(a) of Title 21, United States Code is Constitutional.

V.

Argument.

A. Section 176(a) of Title 21, United States Code Is Constitutional.

The United States Court of Appeals for the Ninth Circuit has consistently held that Section 176(a) of Title 21, United States Code is constitutional. Some of the authority presently existing in the Ninth Circuit on this precise point is found in the following:

Caudillo v. United States (9th Cir. 1958), 253 F. 2d 513;

Claypole v. United States (9th Cir. 1960), 280 F. 2d 768;

Williams v. United States (9th Cir. 1961), 290 F. 2d 451;

Park v. United States (9th Cir. 1961), 296 F. 2d 123;

Butler v. United States (9th Cir. 1958), 253 F. 2d 513.

VI.

Conclusion.

The facts being uncontested, and the constitutionality of Section 176(a) of Title 21 of United States Code, having been upheld many times by this Court, the Order of the District Court denying the application for a Writ of Habeas Corpus should be affirmed.

Respectfully submitted,

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B. Statement of Facts.

Appellant Joseph Ruiz who is presently in the custody of the Attorney General of the United States at the Federal Correctional Institution, Lompoc, California by virtue of his conviction upon his plea of guilty,[3] to one count of an indictment charging the sale of 629 grams, 280 milligrams of marihuana in violation of Section 176(a) filed an application for a Writ of Habeas Corpus with the United States District Court for the Southern District of California in which application, appellant clearly states as follows:

> "The plaintiff alleges that jurisdiction lies with Habeas Corpus proceedings under section 2241, 28, U.S.C., and *not* with section 2255, 28, U.S.C. for the following reasons: (1) That under section 2255, 28, U.S.C., it states 'in part'. An application for a Writ of Habeas Corpus in behalf of a prisoner who is authorized to apply for relief by motion pursuant to this section, shall not be en-

---

[3]On May 10, 1961 the Federal Grand Jury for the Southern District of California returned an Eight Count Indictment charging appellant Ruiz and two codefendants with violations of Section 176(a) Title 21, U. S. C. Appellant Ruiz was named in Counts Three and Four only. These Counts involved the sale and concealment of 629 grams, 280 milligrams of marihuana.

On May 22, 1961, Appellant Ruiz and his codefendants were arraigned before the Honorable Harry C. Westover. On June 12, 1961 appellant Ruiz and his codefendant Padilla entered pleas of not guilty, codefendant Barajas entered pleas of guilty and the entire case was transferred to the Honorable Wm. C. Byrne for further proceedings.

On June 26, 1961 the appellant Ruiz through his retained counsel, Herman Sillas, Jr., filed a petition to enter a plea of guilty. The petition was allowed, appellant Ruiz entered a plea of guilty on Count Three, and on June 17, 1961 was sentenced to the custody of the Attorney General for a period of five years.

tertained if it appears that that applicant has failed to apply for relief, by motion, to the court which sentenced him, or that such court has denied him relief, *unless it also appears that the remedy by motion is inadequate or ineffective to test the legality of his detention.*" [C. T. 2-3.]

The Honorable Harry C. Westover in denying appellant's application for a Writ of Habeas Corpus stated as follows:

"Defendant now files an Application For a Writ of Habeas Corpus", stating that § 176(a), supra, is unconstitutional and, in addition, attempts to raise issues of "c) Conspiracy and d) Entrapment".

"Inasmuch as defendant and his counsel signed and filed the PETITION TO ENTER PLEA OF GUILTY, pursuant to Rules 10 and 11 of the Federal Rules of Criminal Procedure, the issues of conspiracy and of entrapment are not matters properly before this court at this time.

"The constitutionality of § 176(a), supra, has heretofore been determined. *Williams vs United States,* 290 F.2d 451; *Claypole v. United States,* 280 F.2d 768.

"As it appears there is no merit in the contentions raised by petitioner,

"IT IS ORDERED that the Application for a Writ of Habeas Corpus is denied."

Certificate.

I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion the foregoing brief is in full compliance with those rules.

George C. McCarthy
Assistant U. S. Attorney

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT.

ALLEN PHILIP HAMILTON, Jr., *Appellant,* vs. SECRETARY OF DEFENSE, et al., *Appellees.*	No. 18898

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

APPELLANT'S OPENING BRIEF

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IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT.

ALLEN PHILIP HAMILTON, Jr., *Appellant,* vs. SECRETARY OF DEFENSE, et al., *Appellees.*	No. 18898

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

APPELLANT'S OPENING BRIEF

JURISDICTION

This appeal is from a judgment of the District Court of the United States in and for the Southern District of California, Central Division, denying a writ of habeas corpus.

The District Court had jurisdiction by virtue of Title 28, U.S.C. §§ 451 and 2241 to receive the petition filed by the petitioner, seeking his release from the respondents.

This Court has jurisdiction to review, on appeal, the final orders of the District Court by virtue of Title 28, U.S.C. §§ 1291 and 1294(1).

STATEMENT OF CASE

Appellant filed a petition for a writ of habeas corpus [R.]. An order to show cause was issued [R.]. At the time of hearing, it was stipulated that the petition was to be considered as a traverse of the return and that the matter was to be heard as if a writ had been issued and that Exhibit "A" (petitioner's Selective Service file) attached to respondents' Return was the evidence to be considered and it together with the pleadings were to be basis for argument and decision [R.].

The petition alleged in substance that the Selective Service System order to report for and submit to induction was illegal because:

1. Said order is an illegal and arbitrary enforcement of the Universal Military Training Act of 1951, as amended, in that his local board has never given petitioner an Appearance Before Local Board, as provided by the Selective Service Regulations, and as requested in writing by petitioner.

2. Said order is illegal and void in that the local board arbitrarily refused to reopen the classification of petitioner, or, if the conduct of the board is to be considered as a matter of law a reopening then.

3. Said order is illegal and void in that said conduct at that juncture deprived him as a matter of fact of an

Appearance Before Local Board and of an administrative appeal that was based on a record that included the proceedings of an Appearance Before Local Board.

4. Said order is an illegal and arbitrary enforcement of the Universal Military Training Act of 1951, as amended, in that it is based on a classification of petitioner that is unsupported by any evidence.

5. Said order is illegal and void in that it is contrary to all the evidence before said Selective Service System.

Petitioner is therefore deprived of his liberty without due process of law in violation of the Fifth Amendment to the Constitution of the United States [R.].

The trial court, after argument, entered an order dismissing the petition and discharging the show cause order.

Notices of Appeal have been filed within the 60 days given by statute (Rule 73(a), F.R.C.P.) and this Court has expressed interest in expediting the appeal (Order of this Court, dated September 16, 1963). Moreover, counsel have agreed to file briefs in less than the time the rule affords and join in asking that the oral argument be set as soon after appellees' brief is filed as the court's convenience permits.

THE FACTS

All the facts are in petitioner's draft file, Exhibit "A" to respondents' Return.

The portions deemed pertinent to the issues of this appeal are:

Petitioner registered with Local Board No. 30, Richmond, California, in 1955.

On September 10, 1956, he filed with said Board his Classification Questionnaire (SSS Form No. 100) and, among other factual matter showed he was a full-time college student.

On October 28, 1958, his local board sent him a (California) form known as C-137, it being a request for up-to-date information showing status, classification-wise. He showed on it he was a college student.

On November 18, 1958, his local board classified him in Class I-A-C-1, as a registrant available for military service, first category of call.

On June 11, 1959, his local board again sent him a form C-137 and he again showed on it that he was a college student.

On August 3, 1960 his local board sent him an SS Form No. 127 (3-16-60), a National Current Information Questionnaire. He showed on it he was a college student.

On September 1, 1960, he was ordered to report for a physical examination.

On November 17, 1960, he was notified he was temporarily rejected.

On October 18, 1961, he informed the local board he had become the "entire support of my mother—not able to support herself as she has Parkinson's Disease" and that he had obtained employment. He added "Father passed away January 21, 1961."

He was given another physical examination and was again, on November 6, 1961 notified he was temporarily rejected.

On March 20, 1962, he was sent an SSS Form No. 118 (Rev. 5-26-60), termed Dependency Questionnaire. On it he showed he contributed $75.00 a month for his mother's support; that his total income from all sources the last 12 months had been $3,600.00 and that his earnings currently were "125.00 per week, before taxes;" that his wife was employed.

Under statement of Dependent he wrote and his mother signed

> "Mrs. Barbara Hamilton—mother I contribute her entire month income with the exception of a small amount that my father left her—he died January, 1961—my mother has a nervous disease called Parkinson's Disease—she is physically unable to work and it necessitates me supporting her—$75.00 per month—she owns her house—we keep in very close contact as I am an only child.
>
> s/ Barbara L. Hamilton
> March 25, 1962"

On April 26, 1962, he was again informed he had been temporarily rejected (after another examination) but was ordered to return for examination in October, 1962. Eventually, in January, 1963 he was found acceptable and so notified.

On January 11, 1963 his family attorney wrote the local board, as follows:

PAUL K. ROBERTSON
Attorney and Counselor at Law
777 North First Street
San Jose California

Telephone 297-6311

The Selective Service Bureau
Local Draft Board
1206 Main Street

Los Angeles, California

Gentlemen:

Re: Allen P. Hamilton, Selective Service No. 4-30-37-332.

For whatever effect it may properly have upon your decision to induct Mr. Allen Hamilton into the armed services, I wish to advise you of the following information: Mr. Hamilton has been appointed a conservator or guardian of his mother's estate. For some time his mother has been quite ill with Parkinson's Disease and has been unable to adequately care for her estate. Two years ago Mrs. Hamilton's husband passed away and apparently that tragedy coupled with Parkinson's Disease has had some effect upon her mental and emotional stability. At present Mrs. Hamilton has remarried to a man who, from all appearances, has no intention of supporting her or caring for her in this time of need. Should Mr. Hamilton be inducted the family would be presented with quite serious problems. Mrs. Hamilton's newly acquired husband would be the obvious choice as her guardian and conservator. Needless to say, neither Mr. Hamilton nor I place much faith in this gentleman's ability to preserve the estate.

As a matter of fact, with Mr. Hamilton unable to perform his duties as conservator, I think it highly probable that in a short time Mrs. Hamilton might be on the welfare rolls. I hope that this letter will aid you in your consideration of Mr. Hamilton's case.

Very truly yours,

s/ Paul K. Robertson
PAUL K. ROBERTSON

PKR:db
cc: Local Draft Board, Mr. Hamilton

On January 27, 1963 petitioner was sent another SSS Form No. 118 and he showed on it that his contribution to his mother's support was varied and that she had an estate. His detailed statement was:

"Concerning Barbara Harris—My mother has remarried to an Albert Harris since the death of my father two years ago—I have become the conservator of her estate—my mother has a long case history of a disease called Parkinson's. This sickness attacks the nervous system and effects the mind as well as the motor action—of the body.

"Albert Harris is unable to support my mother he has no job, and being an only son—if her estate were left in the wrong hands, I am afraid that my mother would be in serious trouble—at this time, I am now just beginning to bring in some income from her estate."

On February 25, 1963 he was ordered to report for induction but this was postponed. On February 27, 1963 he wrote for an opportunity to meet with the local board. This request was rejected on the 28th.

On the 28th he asked for appellate rights and gave reasons for his tardiness namely, that he was a traveling salesman and was away when the notice came informing him of his rights for an Appearance and/or an Appeal.

This Notice, which is SSS Form No. 110 reads:

"NOTICE OF RIGHT TO PERSONAL APPEARANCE AND APPEAL

"If this classification is by a local board, you may, within 10 days after the mailing of this notice, file a written request for a personal appearance before the local board (unless this classification has been determined upon such personal appearance). Following such personal appearance you may file a written notice of appeal from the local board's classification within the applicable period mentioned in the next paragraph after the date of the mailing of the new notice of classification."

He followed this up with a letter, received by the board on March 4th:

Director
Local Board No. 30
1329 Nevin Avenue
Richmond, California

Gentlemen:

My wife read your letter to me over the telephone and I hasten to answer it from downtown.

I thank you for giving me to the 6th to get in the information.

My employer has consulted his attorney and thinks that, to make certain *all* pertinent facts are presented, we should have a photocopy of the file. By studying the file we can determine better what has been left out that I can readily furnish.

There are many pertinent facts that I believe are not in the file, at least not properly corroborated and therefore your final decision should have the benefit of the corroboration that is available corroboration that may make all the difference between my present classification and a dependency classification. For example, although I am certain I have stated on the Dependency Questionnaire that I am the Conservator of my mother I am certain that I never filed with you court papers (certified, the lawyer tells me I should furnish) of this conservatorship proceeding nor did I give you doctor's letters that show she needed a Conservator.

I therefore will send you a cashier's check for the amount you state and ask you send me a photocopy of my file.

Sincerely yours,

s/ Allen P. Hamilton

450 1/2 Hilgard Ave.
Los Angeles 24, Calif.

On March 6th, the local board conceded the merits of his excuse for tardiness and wrote:

March 6, 1963

4-30-37-332

Allen Philip Hamilton, Jr.
950 1/4 Hilgard Avenue
Los Angeles 24, California

Dear Sir:

Due to your traveling and not receiving your new classification of I-A until after your 10 day right of appeal had expired the members of Local Board No. 30 have this date Postponed your Order to Report for Induction on March 14, 1963, to enable you to exercise your right of appeal, postponement is enclosed herewith.

The Board has also requested that, within the next 10 days, you submit the following information to them for consideration.

1. Official copy wherein you have been appointed as conservator or guardian of your mothers' estate.

2. The approximate value of your mothers estate, whether in property, cash, bonds, etc.

3. Statement from your mothers' physician as to her present physical condition.

We have been advised by our District office that you may have your file photostated if you so desire, as long as you wish to pay for same. This service is offered by our State Headquarters in Sacramento at an approximate cost of 30¢ per sheet of which there are approximately 94 pages, in your Selective Service File. Please advise in this respect.

By Order of Local Board No. 30
s/ Winnie C. Ware

wcw
encl.

Petitioner then filed with the local board the following:

1. The official inventory of his mother's estate showing it totalled $17,444.77, $15,500.00 being real estate and furnishings;

2. His Letters of Conservatorship.

3. The doctor's summary of his mother's case, as follows:

Winston W. Benner, M.D.
2930 McClure Street
Oakland 9, California

April 18, 1963

MEDICAL REPORT

Re: Mrs. Barbara Hamilton

TO WHOM IT MAY CONCERN:

Mrs. Barbara Hamilton has been under the care of this office since March of 1951. At that time she was 31 years of age. She then had a moderately severe post-encephalitic Parkinsonism with frequent oculogyric crises. Superimposed on this was a marked emotional problem with considerable depression. She had, at that time, been under the care of a psychiatrist for approximately four years. Examination was not remarkable except for moderate obesity and the coarse tremor incident to the Parkinsonism. She wept constantly during examination. During 1951 her symptoms were slightly improved by treatment of the Parkinsonism medically. She also had psoriasis, which responded poorly. She did fairly well while being closely watched and for a period of time, had less trouble with the Parkinsonian tremors and fewer oculogyric crises. However, during 1952, 1953 and 1954

depression and anxiety persisted. She continued to have several oculogyric crises per week. Various medications were tried to control her anxiety, depression, and Parkinsonism symptoms without too much success. During 1956, she improved somewhat on medication with Kemadrin, but continued to have many problems and many symptoms. She continued to gain weight. She had frequent respiratory infections. She remained quite depressed and during the last year during which I saw her, in 1960 and 1961, developed considerable mental difficulty. On one occasion, suicide was attempted. Her husband died suddenly and this caused severe emotional disturbance.

Following her last visit to my office in September, 1961, I continued to be aware of her problems and indirectly hear of mental difficulties. It is my understanding that she has further deteriorated since 1961. If there are any further questions concerning this case, I would be happy to furnish what information I can.

Sincerely,

/s/ W. W. Benner, M. D.
Winston W. Benner, M. D.

WWB: vh

On May 14, 1963, the local board again refused to formally reopen his case and refused him an Appearance Before Local Board and sent the file to the appeal board. [Ex. 135]

On May 20, 1963, the local board thereafter notified him that the appeal board had not changed his classification, that the Order to Report for Induction sent him on

May 20, 1963, was cancelled and that he should report for induction on July 8, 1963. [Ex. 144]

QUESTIONS PRESENTED AND HOW RAISED

All question presented were raised by the petition (pages 2-3, "Grounds"). [R.]

I

Was the Local Board required to give petitioner an Appearance Before Local Board?

II

Was the Local Board required to reopen petitioner's classification?

III

Was there a basis in fact for the I-A classification?

SPECIFICATION OF ERRORS

I

The district court erred in dismissing the petition.

SUMMARY OF ARGUMENT

I

A Selective Service System registrant has only one opportunity to meet his local board face to face and present his case. This opportunity was illegally denied appellant.

Appellant was thereby also deprived of the additional opportunity of an augmented file on his administrative appeal.

II

A registrant is entitled to a "reopening of classification" where, as here, new and further evidence is presented, evidence which, if true, requires reclassification.

Here also, appellant was deprived of an augmented record on administrative appeal.

III

There must be a basis in fact for a classification; a classification made without a basis in fact is illegal.

A *prima facie* case for a deferred classification shifts the burden of going ahead with proof to the board. Where, as here, the registrant presents a *prima facie* case the local board is required to "build a record", to use the expression found in the Supreme Court decision governing such a situation. Here, the local board did not build a record but proceeded to reject its registrant's claim on the basis of suspicion or speculation. These bases have been judicially held insufficient to support a classification.

ARGUMENT

Appellant Was Illegally Denied an Opportunity to Meet His Local Board Face to Face, Was Illegally Denied a Reopening of His Classification and His Classification Is Without Basis-in-Fact

It is noted from our above statement that we are of the opinion a combined, interwoven question is involved

here. We believe that an attempt to formally separate the parts is unnecessary and productive of unnecessary repetition.

Our argument must be largely interwoven with some inherent repetition for the logic of our contention goes like this:

1. The deprivation of the Appearance Before Local Board was illegal because the classification was reopened by the conduct of the board, as the pertinent regulations have been interpreted by the courts. A reopened classification permits the registrant to start anew, that is, with respect to his hearing and appellate privileges.

2. If the court is not to be convinced the conduct of the board was itself a reopening (as a matter of law) then we contend that the conduct of the board (chiefly, its demand for specific evidence and in a verified form) plus the conduct of the appellant (chiefly his full compliance with this demand of the board) *required* a reopening, as the pertinent regulation itself requires.

3. Illegal deprivation of a reopening is in itself a denial of due process.

4. The right to a reopening depends upon the production of new or further evidence that makes out at least a *prima facie* case. Therefore, the no basis in fact point becomes an issue. In short, one point depends largely on one or more of the others.

The three points above captioned will be dealt with in the order given, but our argument on them, and their several included points, will be made as appears desirable.

First, it is appellant's contention that both fairness and the law give him the privilege of at least once meeting with his local board to discuss with them his reasons for a deferred classification and their reasons for their contrary decision, namely, classifying him in Class I-A.

The fairness of this proposition need not be argued in the abstract since the administrative agency's regulations themselves provide for such a hearing.

1. Regulations on hearings [32 C.F.R.]:

> 1624.1 Opportunity To Appear In Person. —(a) Every registrant, after his classification is determined by the local board except (1) a classification which is determined upon an appearance before the local board under the provisions of this part or (2) a classification in Class I-C, Class I-W, Class IV-F, or Class V-A, shall have an opportunity to appear in person before the member or members of the local board designated for the purpose if he files a written request therefor within 10 days after the local board has mailed a Notice of Classification (SSS Form No. 110) to him. Such 10-day period may not be extended.
>
> (b) No person other than a registrant shall have the right to appear in person before the local board, but the local board may, in its discretion, permit any person to appear before it with or on behalf of a registrant: Provided, That if the registrant does not speak English adequately he may appear with a person to act as interpreter for him: And provided further, That no registrant may be represented before the local board by anyone acting as attorney or legal counsel.

1624.2 Appearance Before Local Board. —(a) At the time and place fixed by the local board, the registrant may appear in person before the member or members of the local board designated for the purpose. A notation that he has appeared shall be entered on the Classification Questionnaire (SSS Form No. 100).

(b) At any such appearance, the registrant may discuss his classification, may point out the class or classes in which he thinks he should have been placed, and may direct attention to any information in his file which he believes the local board has overlooked or to which he believes it has not given sufficient weight. The registrant may present such further information as he believes will assist the local board in determining his proper classification. Such information shall be in writing, or, if oral, shall be summarized in writing by the registrant and, in either event, shall be placed in the registrant's file. The information furnished should be as concise as possible under the circumstances. The member or members of the local board before whom the registrant appears may impose such limitations upon the time which the registrant may have for his appearance as they deem necessary.

(c) After the registrant has appeared before the member or members of the local board designated for the purpose, the local board shall consider the new information which it receives and, if the local board determines that such new information justifies a change in the registrant's classification, the local board shall reopen and classify the registrant anew. If the local board determines that such new information does not justify a change in the registrant's classification, it shall not reopen the registrant's classification.

(d) After the registrant has appeared before the member or members of the local board designated for the purpose, the local board, as soon as practicable after it again classifies the registrant, or determines not to reopen the registrant's classification, shall mail notice thereof on Notice of Classification (SSS Form No. 110) to the registrant and on Classification Advice (SSS Form No. 111) to the persons entitled to receive such notice or advice on an original classification under the provisions of section 1623.4 of this chapter.

(e) Each such classification or determination not to reopen the classification made under this section shall be followed by the same right of appeal as in the case of an original classification.

Our contention that the appellant was illegally deprived of this Appearance Before Local Board needs argument because, at first reading of the regulation, it may be believed that if a registrant does not make his written request "[w]ithin 10 days after the local board has mailed a notice of classification (SSS Form No. 110) to him" he has forever waived this particular right. We will show that there are frequent situations where this right is renewed and argue that the facts of this case bring appellant within this class of situations.

2. Regulations on Reopening:

PART 1625—REOPENING AND CONSIDERING ANEW REGISTRANT'S CLASSIFICATION

REOPENING REGISTRANT'S CLASSIFICATION

1625.1 Classification Not Permanent.—(a) No classification is permanent.

(b) Each classified registrant and each person who has filed a request for the registrant's deferment shall, within 10 days after it occurs, report to the local board in writing any fact that might result in the registrant being placed in a different classification such as, but not limited to, any change in his occupation, marital, military, or dependency status, or in his physical condition. Any other person should report to the local board in writing any such fact within 10 days after having knowledge thereof.

(c) The local board shall keep informed of the status of classified registrants. Registrants may be questioned or physically or mentally re-examined, employers may be required to furnish information, police officials or other agencies may be requested to make investigations, and other steps may be taken by the local board to keep currently informed concerning the status of classified registrants.

1625.2 When Registrant's Classification May Be Reopened and Considered Anew.—The local board may reopen and consider anew the classification of a registrant (a) upon the written request of the registrant, the government appeal agent, any person who claims to be a dependent of the registrant, or any person who has on file a written request for the current deferment, if such request is accompanied by written information presenting facts not considered when the registrant was classified, which ,if true, would justify a change in the registrant's classification; or (b) upon its own motion if such action is based upon facts not considered when the registrant was classified which, if true, would justify a change in the registrant's classification; provided, in either event, the classification of a registrant shall not be reopened after the

> local board has mailed to such registrant an Order to Report for Civilian Work and Statement of Employer (SSS Form No. 153) unless the local board first specifically finds there has been a change in the registrant's status resulting from circumstances over which the registrant had no control.

It is evident that a significant portion of regulation § 1625.2 is the phrase "[w]hich, if true, would justify a change in the registrant's classification;".

We consider this regulation the crux of our case but first we will deal negatively with a point of law involved. It may be argued by appellees that this regulation is couched in permissive language, that it reads "The local board may reopen and consider anew the classification of a registrant. . . ."

The courts, however, have held it is a denial of due process for a local board to fail or refuse to reopen a classification when evidence is presented "[w]hich, if true, would justify a change in the registrant's classification;". In short, that in this regulation, may means shall, under some circumstances, or put another way that it is an abuse of discretion to refuse to reopen when such evidence is presented.

> *Stain* v. *United States,* 9 Cir., 1956, 235 F.2d 339, 343.
>
> *Brown* v. *United States,* 9 Cir., 1954, 216 F.2d 258, 260.
>
> *Talcott* v. *Reed,* 9 Cir., 1954, 217 F.2d 360, 363.

Before discussing the above and applicable cases from other jurisdictions we will argue that appellant complied with the reopening requirements of the law in all ma-

terial ways and qualified for an Appearance Before Local Board.

Naturally, where a registrant makes a written request that arrives at the board's office within 10 days after the board mails him a notice of a classification that he finds objectionable there should be no controversy. Such a rare controversy has never reached the point of reported opinion.

Controversy has arisen where, as here the registrant had no basis for complaining of his classification at the time it was mailed him, but had a change of status later. In such situations, as here, where the board fails to accord the registrant the full discussion and appellate opportunities provided by the regulations the question chiefly turns on whether the registrant's additional evidence was "new and further evidence" which, if true, required a reclassification. If it was then it could be fairly claimed that the board was remiss in not formally "reopening" the classification. A reopening revives the rights of Appearance Before Local Board and of an administrative appeal.

Decisions of this Court (and of trial courts in this jurisdiction) as well as those of the other jurisdictions support this view.

First, let us consider an included matter: the importance of new evidence concerning status. In *Knox* v. *United States,* 9 Cir., 1952, 200 F.2d 398, the registrant had an Appearance Before Local Board but he was not reclassified after this hearing, as the regulation required. The Court observed:

"So far as we are aware it is the uniform view of the courts passing on the subject that failure to accord a registrant the procedural rights provided by the Regulations invalidates the action of the draft board." [401]

Then the court concluded:

"The significant disregard of the registrant's procedural rights in this instance lies in the fact that upon his personal appearance after classification he presented for the first time evidentiary matter in support of his formal claim to the conscientious objector status embodied in his questionnaire, and no action appears to have been taken to classify him in light either of this evidence or of the showing contained in Form 150, later submitted." [401-402]. . . .

Six months after *Knox, supra,* Judge Lemmon, then a trial judge, pointed out in *United States* v. *Frank,* N.D. Calif. 1953, 114 F. Supp. 949:

"The letter killeth, but the spirit giveth life."[1]

"[3] The tendency of the courts is toward a liberal construction of the 1948 and 1951 Selective Service Acts, in favor of selectees. In ex parte Fabiani, D. C. Pa. 1952, 105 F. Supp. 139, 146-147, the Court said:

"The different objective to be achieved by the new Act behooves us to employ a more liberal standard of judicial review, so as better to protect the rights of the individual. Should—which God forbid—world tensions increase greatly or should general war come, then the judicial arm can once again cut

1. II Corinthians 3:6.

to the barest minimum its supervision of the operations of the draft." [951-952]

Judge Lemmon then found the defendant Not Guilty on the strength of *Knox, supra.*

The importance of the Appearance Before Local Board in the scheme of Selective Service processing has probably never been more vividly illustrated than by Allen Hamilton's experience. He gave the local board *exactly* what it requested of him, and it was not enough! Why? If he had had an Appearance Before Local Board he could have said to them:

> Gentlemen, I filled out your forms and showed I had a dependency situation. When I persisted in writing to you for the dependency classification you finally wrote me on March 6, 1963:
>
> Dear Sir:
>
> Due to your traveling and not receiving your new classification of I-A until after your 10 day right of appeal had expired the members of Local Board No. 30 have this date Postponed your Order to Report for Induction on March 14, 1963, to enable you to exercise your right of appeal, postponement is enclosed herewith.
>
> The Board has also requested that, within the next 10 days, you submit the following information to them for consideration.
>
> 1. Official copy wherein you have been appointed as conservator or guardian of your mother's estate.
> 2. The approximate value of your mothers estate, whether in property, cash, bonds, etc.

3. Statement from your mother's physician as to her present physical condition.

We have been advised by our District office that you may have your file photostated if you so desire, as long as you wish to pay for same. This service is offered by our State Headquarters in Sacramento at an approximate cost of 30¢ per sheet of which there are approximately 94 pages, in your Selective Service File. Please advise in this respect.

By Order of Local Board No. 30
/s/ Winnie C. Ware

wcw
encl. [Ex. 100]

I complied. I sent you exactly what you asked for. [Ex. 116-121, 127-129] Now, gentlemen, what is the trouble?

Do you want more evidence from me? If so name it. Have the standards changed since you wrote me asking for the documents I sent you? Is something else required now? I think I'm entitled to know.

Or does the country need me so badly that I must be called regardless of the present state of the regulations or of my family needs? If that is so tell me and I'll withdraw my claim for deferment.

It should be undisputable that the importance of the hearing to the registrant is great. Many courts have emphasized this—

"It is important that a registrant be given an opportunity to appear in person before a Local Board. A pleader can almost always make a more effective presentation in the give and take of an argument in person than he can in writing. Many fine young

men cannot express themselves well in writing, but they can do much better when they speak and are not so much concerned with their method of expression." [121]

U. S. v. *Derstine*, E.D. Pa., 1954, 129 F. Supp. 117.

Also see *United States* v. *Fry*, 203 F.2d 638; *United States* v. *Stiles*, 169 F.2d 455, 3 Cir., 1948; *United States ex rel. Berman* v. *Craig*, 3 Cir., 1953, 207 F.2d 888; *United States* v. *Peterson*, 53 F. Supp. 760 (N.D. Calif. S.D.); *United States* v. *Laier*, 52 F. Supp. 392 (N.D. Calif. S.D.); *Davis* v. *United States*, 199 F.2d 689 (6th Cir.); Compare *Knox* v. *United States*, 200 F.2d 398 (9th Cir.)

The value of an Appearance Before Local Board is really beyond need of argument.

3. The conduct of the board was a reopening of the classification.

We argue first that a "reopening" of a classification need not be formal and explicit. The leading case on this subject is *Packer* v. *United States*, 2 Cir., 200 F.2d 540. The pertinent facts are that Packer did not indicate on his Classification Questionnaire (he did not sign Series XIV, a request for the Special Form for Conscientious Objector) that he was a conscientious objector to war. He was thereafter classified in Class I-A. He neither appealed nor requested an Appearance Before Local Board within the 10 day period. Subsequently he was physically examined and found acceptable for military service. When he was notified of this he requested the Special Form for Conscientious Objector. The local board sent it to him. He executed it fully and sent it back to the board. Two days

after this Special Form was received by the board it ordered that there would be no reopening of his classifications. He then wrote asking for an Appearance Before Local Board.

The local board denied the request and ordered him to report for induction. The New York City Director of Selective Service notified the board its conduct was the same as a reopening. The local board then sent the file to the appeal board, without formally reopening.

The Second Circuit held:

> "Since the Local Board cancelled the defendant's order of induction and he was allowed to take an appeal to the Appeal Board, which classified him in I-A, it is our opinion that the Local Board permitted the reopening of his case and that any previous waiver may not now be claimed by the government. See 32 C.F.R. 1625.2." [541]

This case also involved the problem of the right to see the FBI reports and the Supreme Court reversed on the FBI point. It is therefore established, in the Second Circuit at least, that such conduct of the local board, as found in Packer and in Hamilton is a reopening.

Also see *Vincelli* v. *United States,* 1954, 216 F.2d 681 (rehearing) and 215 F.2d 210, 1954.

4. The evidence produced by its registrant required a reopening by the board.

Should the court not decide to follow the reasoning and holding of the Second Circuit, in *Packer, supra,* we rely on this point.

We first argue that the registrant is entitled to a strict and faithful following of the procedural regulations.

The Third Circuit, in *Stepler* v. *United States,* 1958, 258 F.2d 310, summed the matter up this way:

> "Furthermore we are here not concerned with whether the defendant made out a case which meets the statutory criteria. We are concerned only with the question whether the local board complied with the law and the regulations and we conclude that it did not comply with the regulations but denied the defendant a procedural right which vitiated the entire proceeding."

The steps to be taken as a condition precedent to induction must be strictly followed. Otherwise the order to report is void. See *Ver Mehren* v. *Sirmyer,* 36 F.2d 876, 881, 8th Cir.

"There must be a full and fair compliance with the provisions of the Act and the applicable regulation." (*United States* v. *Zieber,* 161 F.2d 90 (3rd Cir.). See also *Ex parte Fabiani,* 105 F. Supp. 139.)

Simmons v. *United States,* 1955, 75 S. Ct. 397:

> "Petitioner has been deprived of the fair hearing required by the Act, a fundamental safeguard, and he need not specify the precise manner in which he would have used this right—and how such use would have aided his cause—in order to complain of the deprivation." (402)

Olvera v. *United States,* 5th Cir., 1955, 223 F.2d 880:

> "As long, therefore, as the law stands as it is now written and construed, it is and will continue to be of

> the first importance that the predicate for such conviction without trial by jury be at the least laid with the utmost fidelity not only to every substantial safeguard and right which the law has accorded the objector but also to the procedural requirements compliance with which is essential to the validity of board orders." [884]

We next deal with the proposition that a late request for consideration of new evidence, for reopening of classification is reasonable and within the law, its inconvenience administratively being immaterial.

The Selective Service Regulations are not to be construed strictly against the registrant. *Berman* v. *Craig,* (3rd Cir. 1953) 207 F.2d 888, 891; *United States* v. *Greene,* (7th Cir. 1955) 220 F.2d 792; *Cox* v. *Wedemeyer,* (9 Cir. 1951) 192 F.2d 920, 922-923.

The regulations contemplate a late request for a reopening of the case, because Section 1625.14 provides that even an order to report for induction shall be cancelled when the request to reopen is granted. The spirit of this regulation was carried out in the case styled *In re Abramson,* 196 F.2d 261 (3rd Cir.). In that case the wife of the registrant became pregnant after registrant had exhausted his remedies and shortly before the order to report for induction was mailed. The court held that the registrant stated a good case for relief in that the "[l]ocal board without lawful excuse refused to consider or act upon a timely request for reclassification and deferment asserted by the registrant upon a ground and with a tender of proof declared sufficient by the controlling regulations. This

court has pointed out that situations of this type are within the very limited reach of habeas corpus issuable after induction to challenge the legality of the classification which enabled induction. *Ex parte Stanziale,* 3 Cir., 1943, 138 F.2d 312. Cf. *Estep* v. *United States,* 1945, 327 U.S. 114, 66 S. Ct. 423, 90 L. Ed. 567; *Cox* v. *United States,* 1947, 332 U.S. 442, 68 S. Ct. 115, 92 L. Ed. 59." [264]

The reason for the regulation authorizing the reopening by the local board is obvious. Suppose a registrant may be liable for training and service at the time of registration, at the time of filing the questionnaire and at the time of the final classification. But at the time of the order to report for induction he had been inducted into some governmental office to which he had been elected, entitling him to deferment. In such a situation it would be plain that the registrant would be entitled to a reopening of his classification. A failure or refusal to reopen in such a situation would be obviously unreasonable, arbitrary and capricious.

This argument is supported by the holding in *Hull* v. *Stalter,* 1945, 151 F.2d 633 (7th Cir.).

In such a situation the board must have some real, substantial reason or evidence why it does not exercise its discretion and reopen the case. Here the same situation existed.

It is respectfully submitted that the local board arbitrarily and capriciously refused to reopen the classification. It abused its discretion in refusing to reopen. It defied the regulation.

We next deal with the formal sufficiency of Allen Hamilton's request for reopening.

In *Townsend* v. *Zimmerman,* 237 F.2d 376 (1956), the Sixth Circuit held:

> "The communication of the information by Townsend to the draft board chairman of this change of status was tantamount to a request that his classification be reopened. Under the circumstances of this case it was not necessary that a more formal request be made. Cf. Ex parte Fabiani, D.C. E.D. Pa. 1952, 105 F. Supp. 139, 148." (378)

The Second Circuit in *Berman* v. *Craig,* 207 F.2d 888, said:

> "Sections 1625.1 and 1625.2 of the Regulations taken together require a local board to consider a new classification of a registrant who reports, within 10 days after it occurs, a change in his status which may require his reclassification. This it is the board's duty to do even though, as here, an order to report for induction has been sent to the registrant, provided he has not yet been inducted. Such a timely report was made to the local board in this case by Berman through his telegram of July 3, 1952, supplemented and corroborated by the letter of July 8th from the theological school. It is true that the telegram used the word 'appeal'. But this did not justify the board in regarding it as solely an appeal in the technical sense or in wholly ignoring the changed draft status which is disclosed. Registrants are not thus to be treated as though they were engaged in formal litigation assisted by counsel. The local board should have given consideration to Berman's change of status and determined whether it required his reclassification. Its

failure to do so deprived him of an important procedural right to which he was entitled." (891)

Cf. *Olvera* v. *United States,* 223 F.2d 880 at 833 (5th Cir., 1955); *United States* v. *Henderson,* 223 F.2d 421 (7 Cir., 1955); *United States* v. *Ransom,* 223 F.2d 15 (7 Cir., 1955).

In *Hull* v. *Stalter,* 151 F.2d 633, 7 Cir., 1945, this Court said:

> "We see no reason why a registrant was a non-exempt status at the time of registration should not subsequently be permitted to show that his status has changed or, conversely, why one who is exempt at the time of registration should not afterwards be shown to be non-exempt. In fact, the latter situation seems to be contemplated by § 5(h) of the Act, which provides that 'no . . . exemption or deferment . . . shall continue after the cause therefor ceases to exist.' The point perhaps is better illustrated by referring to certain officials who are deferred from military service while holding office. Suppose a registrant who held no office at the time of his registration and was therefore liable for military service should subsequently be elected or appointed judge of a court or any other office mentioned in the Act. We suppose it would not be seriously contended but that he would be permitted to show his changed status any time prior to his induction into service and therefore be entitled to a deferment." (635)

It may be argued by the government that the "may" in the regulation shows reopening is not mandatory. We could argue that in this context "may" means "shall" but

rely more on our point: reopening may be discretionary but here the facts show abuse of discretion.

In *United States* v. *Stepler,* 3rd Cir., 1958, 258 F.2d 310, the appellant, classified as a I-O conscientious objector claimed a minister's IV-D classification. He was informed by the state director that "[h]is file had been carefully reviewed and as no procedural errors or denial of rights were apparent, no injustice seemed evident. It was also stated that defendant's case had received the consideration of the local board, the appeal board and the appeal agent and all had concurred that a ministerial deferment was unwarranted but that the local board would be requested to consider the additions which had been made to the file since the action of the appeal board to determine whether or not a reopening of defendant's case was warranted. On July 24, 1953 defendant was advised by the local board that the evidence did not warrant reopening his classification." [312]

Stepler's local board thereafter gave him a formal Appearance Before Local Board, the local board again classified him in Class I-O and placed its reasons in the file. He again took an appeal from this adverse decision. The appeal board once more classified Stepler as a conscientious objector.

The state director then wrote the local board—

> "It has been commented that an examination of the cover sheet discloses that the local board has denied the registrant's ministerial claim on a basis which is not in accord with the law and the regulations. Therefore, the file should be further considered by the local board.

> "It is requested that this case be considered by your board at its next meeting, if possible. Please advise this headquarters of your determination." [314]

The local board replied:

> "The Board refuses to reopen this registrant's classification on the basis that he does not qualify for a 4-D under Section 1622.43 of Selective Service Regulations." [314]

The Third Circuit pointed out that "Even under § 1625.2 which provides that under circumstances outlined in that section a local board 'may' reopen and consider anew a registrant's classification it has been held that its failure to do so, under particular circumstances, amounted to a denial of procedural due process of law.[3]"

As indicated by *Stepler, supra, the Second Circuit,* in *United States* v. *Vincelli,* 215 F.2d 210, has construed § 32 C.F.R. § 1625.2—

> "[1, 2] Though the language in the regulation is permissive merely that does not mean that a local board may refuse to reopen arbitrarily, but requires it to exercise sound discretion. That, in turn, requires, when the basis of an application is not clearly frivolous, an inquiry designed to test the asserted facts sufficiently to give the board a rational base on which to put decision. This board, at least, began such a procedure when it sent the appellant the conscientious

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"3. *United States* v. *Vincelli,* 2 Cir., 1954, 215 F.2d 210; *United States* v. *Ransom,* 7 Cir., 1955, 223 F.2d 15; *United States* v. *Henderson,* 7 Cir., 1955, 223 F.2d 421; *Olvera* v. *United States,* 5 Cir., 1955, 223 F.2d 880." [315]

objector questionnaire. That was itself a reopening, see United States v. Packer, 2 Cir., 200 F.2d 540; reversed on other grounds in United States v. Nugent, 346 U.S. 1, 73 S. Ct. 991, 97 L. Ed. 1417, and the vote of the board, though in terms a denial of a reopening, was in effect the denial of a reclassification on the merits after a reopening for their consideration. Consequently Selective Service Regulation 1625.11, 32 C.F.R. Section 1625.11, was applicable and the board was required to classify him again 'in the same manner as if he had never before been classified.' This included 'the same right of appearance before the local board and the same right of appeal as in the case of an original classification.' Selective Service Regulation 1625.13, 32 C.F.R. Section 1625.13. These are substantial rights and the board's procedure in this instance by depriving the appellant of them, was a denial of due process which made his I-A classification a nullity. United States v. Fry, 2 Cir., 203 F.2d 638. For the reasons stated in the opinion in the case just cited, it is no answer to say that the letter of December 26, 1950, was treated as an appeal. See also United States v. Stiles, 3 Cir., 169 F.2d 455; U.S. ex rel. Berman v. Craig, 3 Cir., 207 F.2d 888." [212-213]

The Seventh Circuit's decision in *United States* v. *Ransom,* 1955, 223 F.2d 15, is in accord.

"The local board's original determination was probably correct, but the question before us is whether or not it could constitutionally refuse to reconsider defendant's classification *in the face of the defendant's subsequent allegations and the evidence tending to support them.*" (Italics supplied) [17]

* * *

"The local board should not be able to escape the requirement of a basis in fact by simply refusing to reopen a registrant's file and consider it further." [17]

* * *

"When such a prima facie case is presented and the board has no basis for refusing the requested classification, it must investigate further. If further investigation fails to disclose any basis for refusing the registrant's requested classification, it must be granted." [18]

5. The refusal to reopen was arbitrary, capricious and without basis in fact.

Section 1622.30 of the regulations during the period of appellant's processing provided:*

"1622.30 Class III-A: Registrant With a Child or Children; and Registrant Deferred by Reason of Extreme Hardship to Dependents.—(a) In Class III-A shall be placed any registrant who has a child or children with whom he maintains a bona fide family relationship in their home and who is not a physician, dentist, or veterinarian.

(b) In Class III-A shall be placed any registrant whose induction into the armed forces would result in extreme hardship (1) to his wife, divorced wife, child, parent, grandparent, brother, or sister who is dependent upon him for support, or (2) to a person under 18 years of age or a person of any age who is physically or mentally handicapped whose support the registrant has assumed in good faith: Provided, That a person shall be considered to be a dependent of a registrant under

---

*This regulation was amended by E. O. 11119 on September 13, 1963.

this paragraph only when such person is either a citizen of the United States or lives in the United States, its Territories, or possessions.

(c) (1) The term 'child' as used in this section shall include a legitimate or an illegitimate child from the date of its conception, a child legally adopted, a stepchild, a foster child, and a person who is supported in good faith by the registrant in a relationship similar to that of parent and child but shall not include any person 18 years of age or over unless he is physically or mentally handicapped.

(2) As used in this section, the term 'Physician' means a registrant who has received from a school, college, university, or similar institution of learning the degree of doctor of medicine or the degree of bachelor of medicine, the term 'dentist' means a registrant who has likewise received the degree of doctor of dental surgery or the degree of doctor of dental medicine, and the term 'veterinarian' means a registrant who has likewise received the degree of doctor of veterinary surgery or the degree of doctor of veterinary medicine.

(3) No registrant shall be placed in Class III-A under paragraph (a) of this section because he has a child which is not yet born unless prior to the time the local board mails him an order to report for induction which is not subsequently cancelled there is filed with the local board the certificate of a licensed physician stating that the child has been conceived, the probable date of its delivery, and the evidence upon which his positive diagnosis of pregnancy is based.

(d) In the consideration of a dependency claim, any payments of allowances which are payable by

the United States to the dependents of persons serving in the Armed Forces of the United States shall be taken into consideration, but the fact that such payments of allowances are payable shall not be deemed conclusively to remove the grounds for deferment when the dependency is based upon financial considerations and shall not be deemed to remove the grounds for deferment when the dependency is based upon other than financial considerations and cannot be eliminated by financial assistance to the dependents."

The attitude of the Selective Service System and of the court below, concerning whether there was a basis in fact for the classification was grounded upon error. To begin with, it ignores the doctrine of *Dickinson* v. *United States,* 346 U.S. 389 (1953). That decision requires that the board, "* * * must find and record affirmative evidence that he has misrepresented his case * * *"—346 U.S., pp. 396, 397, 399 (dissenting opinion). Also ignored are the teachings of a long line of Court of Appeals decisions that will be cataloged several pages hereinafter.

The Supreme Court, in Dickinson, refers to affirmative evidence of sham and to its recordation. Neither exists in Hamilton's file.

As quoted above, § 1622.30 provided that a registrant is to be classified in Class III-A when he presents evidence to show his induction would result in extreme hardship to "a . . . parent . . . dependent on him . . . when such person is a citizen or lives in the United States."

Appellant made such a showing of fact, adding the expert opinions of a doctor and a lawyer. This, combined, went beyond a *prima facie* case to show he came within

the provisions of the regulation. If what he presented was untrue his *prima facie*** case was destroyed. There is nothing in the record that tends to show what he presented was untrue or even suspect. The board made an effort to fulfil its obligation to test his claims and called on him for certified evidence of his alleged facts. He complied. No effort was thereafter made to impeach the credibility of his evidence. This is truly a case of an adverse, arbitrary decision based on suspicion and speculation.

It cannot be argued that board believed insufficient evidence was presented because (1) the board never said so and (2) the board had ample opportunity to say so if it so believed and (3) when the board spoke it was solely with respect to verification of the three main items of evidence he had already submitted.

Consequently, we do not have present a question of veracity or authenticity of evidence. Nor do we have a question of quantity, quality or degree because of the somewhat unusual facts: when the registrant asked his board what more was needed from him, it particularized and he complied.

It may occur to one or more members of this Court that if he had been sitting on that draft board he would have asked for X, Y or Z facts.

**The language of Dickinson is:

"But when the uncontroverted evidence supporting a registrant's claim places him prima facie within the statutory exemption, dismissal of the claim solely on the basis of suspicion and speculation is both contrary to the spirit of the Act and foreign to our concepts of justice.

"Reversed." (74 S. Ct. 152, 158)

The courts are not authorized to substitute their judgment for that of the boards. The Supreme Court has so declared. *Estep* v. *United States,* 1945, 327 U.S. 114.

And in *Witmer* v. *United States,* 348 U.S. 375 (1954), the court added at pages 380-381:

> "The courts may not sit as super draft boards, substituting their judgment on the weight of the evidence for the judgment of the designated selective service agencies."

The board decided that the only open question was the authenticity of the registrant's evidence. If it believed that his evidence was insufficient, in any category, there was no need to go into the verity of the remainder. Neither the court below nor this court is permitted to substitute its judgment for that of the local board.

Let us suppose that this court is unanimously agreed that if it had been the board it would have ended the matter before the moment when the board called on its registrant for verification; that it would have said to him:

> "We demur to your showing."

Perhaps such a demurrer by the board would prevail but we need not take time arguing it for the rule is clear: the courts may not substitute their judgment for that of the board's.

The judgment of the board is clear: the registrant had made out a case if he could verify his evidence. They spelled out exactly what they wanted. He gave it to them.

The Selective Service System raised no question (none is recorded) concerning the veracity of the appellant. The question therefore is not one of fact, but is one of law; *Dickinson* v. *United States, supra.* The law and the facts in his file, at least *prima facie,* established that appellant presented a dependency claim.

This case presents a legal situation like that faced by the Fifth Circuit in *Williams* v. *United States,* 216 F.2d 350, wherein the Court said:

> "The Supreme Court has simplified the duty of courts in cases of this kind. The tasks of the courts in cases such as this is to search the record for some affirmative evidence to support the local board's overt or implicit finding that a registrant has not painted a complete or accurate picture of his activities. Dickinson v. United States, 340 U.S. 389, 74 S. Ct. 152, 157. The District Court stated that it found such evidence, but failed to state what it was. After a diligent search, we have found none." (351)

In view of the fact that there is no contradictory relevant evidence in the file, disputing appellant's statements and there is no question of veracity presented, the problem to be determined here by this Court, appellant repeats, is one of law rather than one of fact. The board itself determined the fact problems. It accepted his evidence, if and when verified. The question, to be determined is: Was the decision to refuse to reopen and to keep him in Class I-A arbitrary and capricious?

The undisputed documentary evidence in the file showed that the appellant had a dependent mother, as

well as wife. This showing brought him squarely within the statute and the regulations providing for classification in Class III-A.

At one time many courts were of the opinion that the boards were free to disbelieve anything and everything presented by a registrant and without an explicit finding. Some likened the registrant to a witness on the stand. This view, whatever merit it possessed became obsolete with the advent of *Dickinson* because it flatly held that a *prima facie* case could not be ignored and, as interpreted by Mr. Justice Jackson and many courts since that the "boards must build a record." So what was required of Hamilton further than that furnished by him? That he show his wife and mother were both bedridden? The law did not require Hamilton to show anything more. The board could have demanded more detail. What it demanded he supplied, promptly and fully. It was up to the board to make a showing if it could, to weaken or destroy his showing. The Supreme Court, in *Dickinson,* cataloged the methods the board could use and the agencies of the government at its disposal to build a showing that its registrant was a liar or a sham or had not painted a true picture.

It has been held by many courts of appeal that the rule laid down in *Dickinson* v. *United States, supra* (holding that if there is no contradiction of the documentary evidence showing exemption as a minister, there is no basis in fact for the classification), also applies in cases involving other claims.

> *Jessen* v. *United States,* 10th Cir., 1954, 212 F.2d 897, 900.

Schuman v. *United States,* 9th Cir., 1953, 208 F.2d 801, 802, 804-805.

Parr v. *United States,* 9 Cir., 1959, 272 F.2d 416, 422.

Batterton v. *United States,* 8th Cir., 1958, 260 F.2d 233, 236.

Glover v. *United States,* 8th Cir., 1961, 286 F.2d 84, 87.

Weaver v. *United States,* 8th Cir., 1954, 210 F.2d 815, 822-823.

Taffs v. *United States,* 8th Cir., 1953, 208 F.2d 239, 331-332.

United States v. *Close,* 7th Cir., 1954, 215 F.2d 439.

United States v. *Wilson,* 7th Cir., 1954, 215 F.2d 443, 446.

Jewel v. *United States,* 6th Cir., 1953, 208 F.2d 770, 771-772.

Pine v. *United States,* 4th Cir., 1954, 212 F.2d 93, 96.

United States v. *Hartman,* 2nd Cir., 1954, 209 F.2d 366, 368, 369-370.

United States v. *Titsuo Izumihara,* 120 F. Supp. 36, 40.

"In the light of the Supreme Court's decisions and the decision of the United States Court of Appeal for the Ninth Circuit in the case of Schuman v. United States, 208 F.2d 801, even though these are cases involving ministers, *I think the same spirit of decision is applicable here.*" (Italics supplied.)

In *Jessen* v. *United States,* (10th Cir., 1954) 212 F.2d 897, after quoting from *Dickinson, supra,* this Court said:

"Here, the uncontroverted evidence supported the registrant's claim . . . There was a complete absence of any impeaching or contradictory evidence. It fol-

lows that the classification made by the State Appeal Board was a nullity . . ." [900]

There must be an affirmative finding that his evidence lacked credibility. "It is hard to see how the board could have refused a deferment under the case of *Dickinson* v. *United States,* 346 U.S. 389, unless there was an affirmative finding that the evidence lacked credibility." *United States* v. *Williams,* No. 8917 Criminal, D. Conn., April 2, 1954, Judge J. Joseph Smith. And see *United States* v. *Peebles*, 7th Cir., 220 F.2d 114, 119, and cases cited. Also *Hagaman* v. *United States*, (3rd Cir.) 213 F.2d 86.

To repeat, and conclude this portion of the argument, no one has questioned Hamilton's veracity, and there is no evidence to rebut his *prima facie* case.

There remains one final argument on the point that the action of the Selective Service System board was arbitrary and without basis in fact. We have already shown that the dependency (hardship) classification in the Selective Service System is Class III-A. Prior to 28 September, 1951, the regulations required that all married men were to be classified in Class III-A. The needs of the Korean war required a change. After that date fatherhood was a standard test, with other family responsibilities also qualifying the registrant for Class III-A.

It is beyond dispute that during the early part of this period, the fact of being a husband in a *bona fide* family relationship was alone sufficient to make mandatory the III-A Classification, although local boards, following direc-

tives from the National Director and State Directors did not think so! See *Ex parte Barrial,* S.D. Calif. 1952, 101 F. Supp. 348.

On September 11, 1963, the President, by Executive Order No. 11119, changed the regulation back to pre-28 September, 1951: merely being a husband became and presently is sufficient for classification in Class III-A. After E.O. No. 11119 no fathers have been ordered to report for induction; outstanding orders were cancelled.

It may be argued that this appellant, unfortunately, was born a month or so too soon and that the Executive Order has no bearing on our case. Not so. The emergence of E.O. No. 11119 is important in considering whether appellant, Hamilton, made out a *prima facie* case for a III-A classification *when* he presented his new and further evidence. By September 11, 1963, standards his file showed much more than what is presently required, but the question should be put this way: By standards properly used on the day this new and further evidence came in to the boards's office did he make out at least a *prima facie* case? E.O. No. 11119 is pertinent to our inquiry because nothing took place in the short period between appellant's presentation of evidence and the conclusive "finding" of E.O. No. 11119. There was no significant change in military need between the time of the local board's rejection of his request and E.O. No. 11119. The local board acted arbitrarily by any standard.

It is common knowledge that in this era the passage of a few years makes much of the offensive and defensive armament obsolete. In our special area of concern it is to

be noted that nuclear and "machine" warfare depends on a force of highly trained operators. For some years past the average monthly draft calls have been mere tokens and these men have not been trained for modern technological warfare or even retained for the period necessary for this. Why? Because the need for mass manpower for military purposes is clearly a thing of the past.

Certain facts are commonly known: the changing technology of this nuclear age; that only one service, the army, has been using draftees; the country's population explosion with the projected figures for males becoming 18 soon accelerating, due to the great post WWII baby crop.

The unreasonableness of the local board's refusal to formally reopen is dramatically demonstrated by E.O. No. 11119. This Executive Order is for all purposes a finding by the highest authority that the hardship expression in the regulations is not a fixed formula.

E.O. 11119 was a finding of fact. It was not a mere fiat of the Executive. It was one of a series of over three score such executive orders, that is, of changes in the Selective Service Regulations, since 1948.

From the commencement of the Act in 1948, to and including May 1, 1963, the agency has issued 77 packets. These packets consist of one to over 100 pages each, for substitution insertion in the binder containing the Selective Service Regulations. Each packet contains one or more changes in the regulations. Regulation changes require an Executive Order. In a very few instances an

amendment of the Act, by the Congress is the basis for the packet or a portion of it.

These orders do not originate in the mind of the Chief Executive, of course, nor even do they originate in the White House. They originate at 451 Indiana Avenue, N. W., Washington 25, D.C., the office of the Director of the Selective Service System. They are sent to the President for signature and from there go to the Federal Register. Upon publication they have the force of law. See *Ex parte Asit Ranjan Ghosh,* (S.D. Calif., 1944) 58 F. Supp. 851, for an excellent discussion of such documents by a district judge who had been a Selective Service official, the most thorough discussion of this subject known to counsel.

In sum: to become law, they must be published; since 1950 there have been several score such Executive Orders changing the regulations.

These Executive Orders are to meet *existing* conditions; often, to correct "faulty" regulations. A few examples:

E.O. No. 10594, dated January 31, 1955, changed "shall" to "may" in 32 C.F.R. § 1604.41, the regulation providing for the local boards to have Advisors for Registrants. This followed the raising of the point (no advisor) in *Davidson* v. *United States,* No. 14356, 9 Cir., decided December 27, 1954.

E.O. No. 10420, dated December 17, 1952, added "by the registrant" to 32 C.F.R. § 1624.2, the regulation providing that a summary of the Appearance Before Local Board is to be placed in the file for the Appeal Board's

study. This Executive Order followed the dismissal of *U. S.* v. *Tutschulte,* No. 21926, D.C.S.D. Calif. and *U. S.* v. *Mock,* No. 21963, D.C.S.D. Calif., the preceding year, having been dismissed because the board had failed to place such a summary in the file of each of these two defendants.

Generally, however, these Executive Orders are Findings of Fact. They are determinations of current conditions and needs. E.O. No. 11119 was precisely this:

Wednesday, September 11, 1963 9865

FEDERAL REGISTER
Executive Order 11119

Amending The Selective Service Regulations

By virtue of the authority vested in me by the Universal Military Training and Service Act (62 Stat. 604), as amended, I hereby prescribe the following amendments of the Selective Service Regulations prescribed by Executive Order No. 10735 of October 17, 1957, No. 10985 of January 6, 1962, and No. 11098 of March 14, 1963, and constituting portions of Chapter XVI of Title 32 of the Code of Federal Regulations:

1. Subparagraph (3) of paragraph (a) of section 1631.7 of Part 1631, Quotas and Calls is amended to read as follows:

"(3) Nonvolunteers who have attained the age of 19 years and have not attained the age of 26 years and who do not have a wife with whom they maintain a bona fide family relationship in their homes, in the order of their dates of birth with the oldest being selected first."

2. Subparagraphs (4) and (5) of paragraph (a) of section 1631.7 are redesignated as subparagraphs

(5) and (6), respectively, and a new subparagraph (4) is added to paragraph (a) to read as follows:

"(4) Nonvolunteers who have attained the age of 19 years and have not attained the age of 26 years and who have a wife with whom they maintain a bona fide family relationship in their homes, in the order of their dates of birth with the oldest being selected first."

John F. Kennedy

THE WHITE HOUSE,

September 10, 1963.

[F.R. Doc. 63-9793; Filed, Sept. 10, 1963; 12:27 p.m.]

While no one can argue that such an Order has retroactive effect we believe it is reasonable and proper to argue, as we have been doing that it is a conclusive finding of a state of affairs, of a desirable standard for the draft system, of the Nation's need. Whatever doubt may possibly have existed concerning the need of the armed forces for men with dependents was completely resolved. This is akin to the production of newly discovered evidence, after a jury determination. Justice requires the consideration of such evidence.

Although the mere fact of marriage, and it alone, at the time appellant was making his showing for a III-A classification, was insufficient it coupled with his initial showing of his mother's situation met the needs of a *prima facie* case. His subsequent showing made a reasonably strong case. The effort of the board to investigate his claims was proper. If he had failed to produce the

certified evidence asked of him, or, if it were shown that the evidence produced was sham we would have a different situation. He produced; the board reneged. That is a correct estimate of the situation, we submit.

CONCLUSION.

For the reasons given the judgment of the trial court should be reversed and the writ should issue.

Respectfully,

J. B. Tietz,
Attorney for Appellant.

SEPTEMBER 30, 1963.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

_____,
J. B. Tietz,
Attorney for Appellant.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT.

ALLEN PHILIP HAMILTON, Jr., *Appellant,* vs. SECRETARY OF DEFENSE, et al., *Appellees.*	No. 18898

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

REPLY BRIEF.

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IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT.

ALLEN PHILIP HAMILTON, Jr., *Appellant,* vs. SECRETARY OF DEFENSE, et al., *Appellees.*	No. 18898

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE

SOUTHERN DISTRICT OF CALIFORNIA, CENTRAL DIVISION.

REPLY BRIEF.

POINT I.

Appellees argue that appellant was not entitled to a personal appearance before his local board.

The regulation [§ 1624.1] concerning such appearance recites that the 10 day period may not be extended.

A registrant's rights are not governed solely by the regulations. Fundamental concepts of fairness may properly apply. For example, in *Simmons* v. *United States,* 1955, 75 S. Ct. 397, the Court commented:

> "We are endeavoring to apply a procedure, set forth by Congress, in accordance with the statutory

> plan and the concepts of basic fairness which underlie all our legislation. We have held that to meet its duty under § 6(j) the Department must furnish the registrant with a fair resume of the FBI report. It is clear in the circumstances of this case that it has failed to do so, and that petitioner has thereby been deprived of an opportunity to answer the charges against him. This is not an incidental infringement of technical rights. Petitioner has been deprived of the fair hearing required by the Act, a fundamental safeguard, and he need not specify the precise manner in which he would have used this right and how such use would have aided his cause in order to complain of the deprivation." [402]

It is clear from the undisputed, factual sitation in this case that the registrant didn't get his notice in time to exercise his right to this Appearance Before Local Board. We will argue that his failure to timely ask for it, under these circumstances should not be construed a waiver. It is factually clear also, that the local board itself partially realized this for it gave him an administrative appellate opportunity. We have already argued (Opening Brief pages 23-) that his appellate opportunity was a crippled one for it didn't have the benefit of a record augmented by a summary of the give and take of a hearing; in addition, of course, there is the possibility he might have persuaded the local board itself of the merit of his claim.

This portion of the regulation is contrary to the spirit of the Act. It should be so condemned. In any event,

the local board should not be excused for its failure to listen to him orally.

The records of this Court show numerous instances of boards giving the registrant an interview out of time.* An "Interview" is the equivalent for all purposes of the Appearance Before Local Board, excepting only one: the registrant is not in as good a technical position to claim there was an actual reopening. But it does give him the chance to look the board members in the eye, etc., etc. Allen Hamilton never once had such a chance.

Some boards seem to have crystallized a fair policy on this problem. This is exemplified in a currently submitted case in the Southern District of California, *U. S. A.* v. *Grizzard,* No. 32555:

May 6, 1963

SSS No. 4-141-38-792

Richard Byrne Grizzard
925 Agate St.
San Diego 9, California

Dear Sir:

Reference is made to your letter dated May 2, 1963 regarding your request for a personal appearance and appeal. This is to advise that the local board is

---

*A short search shows: *Gallegos* v. *United States,* 9 Cir., No. 17,330, minutes, 10/10/56, "Request to registrant to report for interview with local board"; *Shaw* v. *United States,* 9 Cir., No. 16,139, minutes May 7, 1957—"Reg. directed to appear before Local Board for an interview on May 23, 1957, at 2:00 p.m.; *Evans* v. *United States,* 9 Cir., 15,385, minutes, 6-1-55, Notice to reg. to report for interview with Local Board on June 14, 1955, at 10:35 a.m.

willing to grant you the opportunity to appear for an interview only to discuss your case, but this appearance will not be considered as a procedural right since a registrant is only granted the procedural right of a Personal Appearance and Appeal within 10 days after his Notice of Classification, (SSS Form 110) has been mailed to him.

Enclosed is a letter which schedules you to report for an interview with the Local Board.

Very truly yours,

FOR THE LOCAL BOARD
Patricia Doane
Clerk

The referred to letter scheduling the interview is a mimeographed form, filled in as shown:

May 6, 1963

SS No. 4-141-38-792

Richard Byrne Grizzard
925 Agate St.
San Diego 9, California

Dear Sir:

You are requested to present yourself for an interview with this local board at the above address on May 16, 1963 (Thursday) at 3:15 p.m. for the purpose
(date) (hour)
of clarifying information in your Selective Service file.

BY DIRECTION OF LOCAL BOARD
No. 141

/s/ Patricia Doane
Clerk - Patricia Doane

Appellee cites three cases to support its following conclusion:—"Since the appellant did not comply with the procedural requirements he cannot now complain that he was denied due process. See *United States* v. *Monroe,* 105 F. Supp. 785 (S.D. Calif. 1957); *Feuer* v. *United States,* 208 F.2d 719 (9th Cir. 1953); *United States* v. *Bonga,* 201 F. Supp. 908 (E.D. Mich. 1962)."

These three cases are distinguishable:

1. *Monroe* was not only in noncompliance with the regulations but was in a completely untenable position; the board had formally declared him a delinquent [§§ 1642-] and, moreover, his effort to have new evidence considered was not only after the board ordered him to report for induction but after the date specified for him to be inducted.

Hamilton was not a delinquent when he asked for the opportunity to meet with the local board, he acted as soon as he came back from his business trip and found the notice.

2. *Feuer* was characterized by this court as a mere "staller" [721]. No one has said or implied this of Hamilton and we doubt that this court will so conclude. Hamilton is a young man with a family problem. None of these three cases had comparable factors involved.

3. *Bonga* was in precisely the same position as Monroe, in that his "claim for exemption [was] first advanced after defendant refused induction." [915]

We believe the factual situations sufficiently distinguish Hamilton's situation from the distinctly unappealing claims and far-out postures of Monroe, Feuer and Bonga.

We believe there are degrees of neglect; that some neglects, as in the case of Allen Hamilton are excusable (and excusable to a greater extent than the board was willing to go) and that other neglects, as in Monroe and Bonga were too far beyond reason and that others like in the case of a staller such as Feuer are not to be excused.

The courts have dealt leniently with a considerable number of excusable neglects. Examination of these cases shows Allen Hamilton's factual situation compares favorably with the records in them.

First, in general, this Court has looked to the spirit of the Act and not always to the precise letter of the regulations:

In *Talcott* v. *Reid*, 9th Cir., 1954, 217 F.2d 360, we see:

> "We have very carefully analyzed the letter in the light of the waiver issue and have concluded that it did not constitute a waiver of a personal hearing before the local board. Inasmuch as a personal hearing is a definite right given every registrant by the Congress, there is no question but that such right should not be construed as having been waived unless the facts leave no other reasonable conclusion open.[1] [362]

In *Cox* v. *Wedemeyer, supra,* this court said:

> "It does not conform with the letter or spirit of the Act or of the regulations, to construe the language

---

1. *Cox* v. *Wedemeyer,* 9 Cir., 1951, 192 F.2d 920; *United States* v. *Brandt,* D.C. S.D. Iowa, Cr. No. 1-2227, June 2, 1952; *United States* v. *Blaker,* D.C. S.D. Ind., Cr. No. 9677, March 12, 1954.

of appellant's letter under the same strict rule of interpretation applicable to a formal assignment of errors." [923]

Next, specifically, courts in this jurisdiction have concluded there may be legitimate excuses for neglect and, in such instances, that the local board should give the registrant another opportunity to meet with it:

> In United States v. Waterfield, No. 3143, D.C. S.D. Calif., May 15, 1953, it was held that the local board should have given the registrant another date for the hearing, his mother having advised the board that the registrant was out of town when the invitation came. In United States v. Williams, No. 3207, D.C. S.D. Calif., September 20, 1954, it was held that the registrant's explanation that the mail came late, plus his request for another date, should have resulted in a second invitation to come and talk to the board."
> [835, 41 Am.BarAssoc. J., Sept., 1955.]

In other jurisdictions similar lenient applications of the law have been made when the factual situation was similar to Allen Hamilton's:

Ex parte Fabiani, D.C. Penna. 1952, 105 F. Supp. 139, is quite close to our set of facts, although much more neglect was shown. Fabiani had failed to report for the pre-induction physical examination and failed to report for induction, as ordered. The question, as here, was: did his excuse warrant lenient consideration by the Court?

Despite the fact the nation was deeply involved in Korea at the time Judge McGranery (later Attorney General) saw that the spirit of the law called for leniency

in interpreting the regulations because of a fact that applies at least as much to our situation: the draft act was not a war act:

> "The different objective to be achieved by the new Act behooves us to employ a more liberal standard of judicial review, so as better to protect the rights of the individual. Should—which God forbid—world tensions increase greatly or should general war come, then the judicial arm can once again cut to the barest minimum its supervision of the operation of the draft." [146-147]

Judge McGranery went on to show that this rule for interpretation was well recognized:

> "We think that the different objective of the 1948 and 1951 Acts has been recognized by numerous Courts, and that they are consequently more willing to scrutinize the actions of the local boards (cf. Horowitz, 'Rights of a Registrant under the Selective Service Law," 7 Intramural Law Review of New York University 106 (January, 1952)). Thus, in Tomlinson v. Hershey, D.C. Ed. Pa. 1949, 95 F. Supp. 72, Judge Ganey of this Court refused to dismiss a complaint for an injunction and a declaratory judgment brought by a registrant against the authorities of Selective Service, even though he had not reported for induction as ordered." [147]

The judge then went on to quote from many cases in similar vein. A mere glance at Judge McGranery's list shows that, as early as 1952 an impressive list of opinions on this point had already been made.

This principle has been applied in other, related areas. One example should suffice. This court, in *Donato* v. *United States,* 9 Cir., 1962, 302 F.2d 468, said that the government had argued that failure by the registrant to exhaust his administrative remedies barred him from consideration and had argued also "that however flexible the rule may be in other circuits this court has refused to regard it as other than inflexible" [469-470].

This Court, nevertheless, went on to conclude that "[u]nder all of the circumstances of this case a relaxation of the exhaustion of remedies rule would be just and proper." [470] Even the dissenting judge agreed, in principle: "I would not contend there are no valid excuses for failure to take an administrative appeal." [470]

POINT II.

Appellee here argues that (1) the local board was not required to reopen the classification and (2) that its action did not constitute a reopening.

To support its first position appellees claim the Order to Report for Induction is a deadline that is an absolute bar to reopening, unless the board first specifically finds there has been a change in the registrant's status resulting from circumstances over which registrant had no control.

We say that a board cannot defeat the intent of the law by failing to act. If, in all fairness the circumstances were such that the registrant had no control over them his change of status is to be recognized and a failure on the part of the board is its own failure, an abuse of authority or of discretion.

Can it be said that the registrant had any control over the physical and mental condition of his mother?

Again, in connection with this point appellees argue that neglect bars complaint by the registrant. Four cases are cited: "See, *United States* v. *Mohammed,* 288 F.2d 236, cert. den. 82 S. Ct. 37, 368 U.S. 820, 7 L. Ed. 2d 26, 82 S. Ct. 238, 368 U.S. 922, 7 L. Ed. 2d 137; *United States* v. *Bartlet,* 200 F.2d 385 (7th Cir., 1952); *Boyd* v. *United States,* 269 F.2d 607 (9th Cir., 1959) and *United States* v. *Bonga, supra.*"

We believe these cases should not be applied to our situation:

1. *Mohammed,* the Seventh Circuit declared, made only a "naked claim" and made "no attempt to submit written proof of facts showing his entitlement to the claimed exemption." [243]

This registrant was very negligent, in addition to being weak in his claim for a *minister's* classification the opinion pointing out he had at least nine strikes against him:

> "The selective service agencies were here presented with the file of a registrant who had—
>
> (1) expressly disclaimed ministerial status in his classification questionnaire.
>
> (2) His claim of conscientious objector status had been granted upon file information, inter alia, that he was attending the University of Islam, a private school operated by his sect, in a curriculum which included religious instruction.

(3) He had attended the same school since the age of seven years as the trial judge so aptly pointed out in his memorandum.

(4) He expressed no dissatisfaction with the 1-0 classification given on June 6, 1956, until after the local board had begun processing his file for his induction into civilian work of national importance. He was advised within five days after his 1-0 classification that civilian work was contemplated to be ordered.

(5) He still remained silent for approximately four months until October 9th. He then advised the local board that he could not work for any other organization because he was serving the Temple of Islam 'in any way it finds necessary.'

(6) At the meeting on January 15, 1957, he stated that he was working full time in a restaurant operated by his sect. He did state that he was devoting his spare time to study and teaching of the religion of Islam,[13] but still

(7) did not submit any written evidence of any change in his status, as reflected by the evidence in his file at the time the 1-0 classification was given.

(8) Instead, he waited until he had been indicted for disobedience to an order to report for work. On the eve of his trial on that indictment, his letter of April 1, 1958, asserted to the State Director that the same evidence which had been previously considered by the appeal board showed that he had been a student for the ministry of Islam

since shortly after December 18, 1952, a claim which he then asserted for the first time.

(9) He might yet have submitted proof to substantiate his claim, but did not do so."

* * *

"The board was not arbitrary in its refusal to reopen defendant's classification upon the record in this case." [243]

We believe no argument is needed that the Mohammed decision was based on a very different record from Allen Hamilton's.

2. *Bartelt,* the next case cited, is so different factually that it is not in point. Bartelt *was* given "another personal appearance before the board" *after* the refusal to reopen [See opinion, p. 388]. This is just what Hamilton wanted.

Also, Bartelt's new evidence could not possibly have entitled him to his claimed, ministerial [IV-D] classification because his claim was that of a divinity student and such a claimant must show full time student activity [his evidence was 12 hours a week] as distinguished from a claimant who says he is a regular or an ordained minister, the minister being required only to show that his activity in his vocation, hours being immaterial.

3. *Boyd* is distinguishable in that (1) he had been formally determined delinquent before he sent in his claim and evidence [see p. 608] and (2) the court believed his claim of a changed status was a change over which he had control and therefore barred by the explicit proviso of the regulation. [611] And finally (3) the act of the clerk

giving Boyd the special form for conscientious objectors was merely a ministerial act, one required of her by the regulations. [610]

Hamilton had not been declared delinquent when he presented his new and further evidence; his changed status (his mother's physical and mental illness) could hardly be characterized as one over which he had control; finally, he does not base his reopening claim upon a request for a form that the clerk was required to give upon demand but upon the detailed evidence sent at the explicit, detailed invitation of the board.

4. *Bonga,* as we have shown above, first advanced his claim after the date set for the induction ceremony and was thus unreasonably late.

Appellee next deals with the question whether the board's action constituted a reopening. The two Second Circuit cases we relied on are discussed. To what is said in our Opening Brief we add only the comment that the argument of appellee is based on a difference of opinion among the Second Circuit Judges. The court, as constituted in the Vincelli case contained different personnel, Judge Hand and Clark not being part of the Vincelli panel.

In any event we reinvite attention to the chief argument on reopening we made in our Opening Brief, commencing on page 26: Contrasting with our short argument based on *Packer, supra,* we argued from page 25 to page 35 that Should the court not decide to follow the reasoning and holding of the Second Circuit, in *Packer, supra,* we rely on this point: "The evidence produced by

its registrant required a reopening by the board." We believe our latter argument was not disturbed.

POINT III.

Appellees contend that *Dickinson* v. *United States,* 1953, 74 S. Ct. 152, and the long line of cases following its holding "is limited to situations where a ministerial or conscientious objector deferment is involved, and these cases are not applicable to a dependency or hardship deferment." No rationale or argument is presented by appellees for limiting the unqualified holding of the Supreme Court. After a cataloging of methods available to the board for testing the claims of its registrant the Court concluded:

> "But when the uncontroverted evidence supporting a registrant's claim places him prima facie within the statutory exemption, dismissal of the claim solely on the basis of suspicion and speculation is both contrary to the spirit of the Act and foreign to our concepts of justice. Reversed." [74 S. Ct. 152, 158].

In any event, it is our view that the Dickinson doctrine is not limited to religious claims and that no reason has been given for a change. We also believe this view is accepted in this jurisdiction:

One from Hawaii said:

> "In the light of the Supreme Court's decisions and the decision of the United States Court of Appeals for the Ninth Circuit in the case of Schuman v. United States, 208 F.2d 801, even though these are cases involving ministers, *I think the same spirit of decision is applicable here.*" (Italics supplied).
>
> *United States* v. *Izumihara,* 1954, 120 F. Supp. 36, 40.

In *Johnson* v. *United States,* 9 Cir., 1961, 285 F.2d 700, it was held, after a somewhat detailed discussion of Johnson's evidence concerning his activities:

> "Thus no prima facie case of an occupational deferment was established, and Dickinson v. United States, 1953, 346 U.S. 389, 74 S. Ct. 153, 98 L. Ed. 132, is inappropriate." [703]

Appellee next argues that what the registrant presented was not sufficient reason upon which to defer appellant. The only factual matter presented by appellees was that the conservatee's estate was $17,444.77. Appellees ignore the conceded fact [by them] that this total was for a home and some furnishings and $1,944.77 in cash. If the board was using the standard of absolute poverty we question the legality of such a standard. If the board was requiring that the defendant be bedridden, as we are informed and believe some boards have we similarly question this standard, as a matter of law. The standard imposed by the law "extreme hardship" is not a definitive or an absolute. It varies according to circumstances. In the context of the regulations it varies according to military need, international tension and local, economic conditions and the available manpower pool. We submit that Allen Hamilton's mother, by being deprived of his aid is suffering extreme hardship in the context of conditions in the Summer of 1963. By this we mean chiefly the well-known, undisputable fact that only a trifling percentage of our man-power pool was being taken away from pursuit of individual aims and family obligations. As Judge McGranery said in *Fabiani, supra,* conditions change the

attitude of the courts. The concept of extreme hardship being relative it is not now what it was during the war and Allen Hamilton's mother should be in the same situation as other mothers. As it is, she is needlessly (that is, unequally) exposed to hardship and deprivation.

In this connection we should consider again the President's September 10, 1963, Executive Order No. 11119. As we argued in our Opening Brief (pp. 47-) the Executive Order was a finding of fact. It found that current conditions (military needs) did not require hardship on wives by the induction of husbands. The object of the President was accomplished by the device of amending the regulation (§ 1631.7) setting forth the order registrants are to be called from the manpower pool. By the amendment husbands were placed close to the bottom. Since it has been many years since boards have had to go that "low in the barrel" this Order gave such a registrant the equivalent of a III-A classification, a deferment by reason of extreme hardship.

There can be no other interpretation of this Executive Order. The act is clear:

> "The President is authorized, under such rules and regulations as he may prescribe, to provide for the deferment * * *.
>
> [24 lines omitted]
>
> "The President is also authorized, under such rules and regulations as he may prescribe, to provide for the deferment from training and service in the Armed Forces or from training in the National Security Training Corps (1) of any or all categories of persons in a

status with respect to persons (other than wives alone, except in cases of extreme hardship) dependent upon them for support which renders their deferment advisable, and (2) of any or all categories of those persons found to be physically, mentally, or morally deficient or defective."

The Act clearly forbids an explicit deferment for a registrant merely because he is married. This also is the interpretation of Hon. Carl Vinson, Chairman of the Committee on Armed Services, House of Representatives. On March 1, 1963, he stated to his committee:

> "Now, I would like to briefly describe the operation of the draft law.
>
> "I do that because we have had many new members of the committee since the law was extended 4 years ago. These are the high points of the draft law.
>
> * * *
>
> "The law also permits the President to provide for deferments because of an individual's occupation or because of his dependency status. However, an individual may not be deferred under the law on the basis of marriage alone, except in cases of extreme hardship."

It is therefore evident that the President only gave us a clarification of the expression, "extreme hardship." [No. 3 Full committee consideration of H.R. 2438, to extend the induction provisions of the universal military training and service act, and for other purposes.]

We submit that the President was merely giving expression to what was common knowledge, namely, the

Selective Service System had a manpower pool vastly exceeding its needs and this long-standing condition had to be officially recognized.

To support its argument on hardship appellee cites only *Micheli* v. *Paullin,* 45 F. Supp. 687 (D.C. N.J. 1942). That court expressly found that Micheli's parents "could sustain themselves in some manner for the duration of the war." [691]

What evidence is there of Allen Hamilton's mother's ability to sustain herself for the two years of his draft service and to rebut the *prima facie* showing made by the registrant? Only two possibilities are present, for she was clearly unemployable:

(1) That she had a new husband. On January 19, 1963, the registrant, under penalty of perjury, wrote the local board: "Albert Harris is unable to support my mother—he has no job." [86] No effort was made by the board to refute or minimize this statement. The family lawyer, Paul K. Robertson, on January 11, 1963, wrote the board a long letter concluding—

> "At present Mrs. Hamilton has remarried to a man who, from all appearances, has no intention of supporting her or caring for her in this time of need. Should Mr. Hamilton be inducted the family would be presented with quite serious problems. Mrs. Hamilton's newly acquired husband would be the obvious choice as her guardian and conservator. Needless to say, neither Mr. Hamilton nor I place much faith in this gentleman's ability to preserve the estate.

> "As a matter of fact, with Mr. Hamilton unable to perform his duties as conservator I think it highly probable that in a short time Mrs. Hamilton might be on the welfare rolls." [70]

There is nothing in the file to cast doubt on this. On April 18, 1963, a letter from her medical doctor was filed showing the mother is unemployable and "deteriorated." [Ex. 129]

(2) That she had, in addition to her $15,500.00 home and furnishings, about $2,000.00 in cash, at the time of the inventory. How long could such a sum last to support herself, her jobless husband and pay her taxes? The military allotment, shared with his other dependent [wife] is an inadequate pittance.

POINT IV.

This section of appellee's brief was entitled: Are the respondents the proper parties to this action?

There is no material disagreement in this area.

Respectfully,

J. B. Tietz,
Attorney for Appellant.

November 4, 1963.

I certify that, in connection with the preparation of this brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

J. B. Tietz,
Attorney.

No. 18,898

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ALLEN PHILLIP HAMILTON, JR.,

Appellant,

vs.

SECRETARY OF DEFENSE and COMMANDING OFFICER, Armed Forces Examining and Induction Station, 1033 South Broadway, Los Angeles, California,

Appellees.

APPELLEES' BRIEF.

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No. 18,898

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ALLEN PHILLIP HAMILTON, JR.,

Appellant,

vs.

SECRETARY OF DEFENSE and COMMANDING OFFICER, Armed Forces Examining and Induction Station, 1033 South Broadway, Los Angeles, California,

Appellees.

APPELLEES' BRIEF.

Jurisdiction.

This appeal is from a judgment of the District Court of the United States, Southern District of California, Central Division, denying a Petition for a Writ of Habeas Corpus.

The district court had jurisdiction by virtue of 28 U. S. C. § 2241.

This court has jurisdiction to review, on appeal, the final orders of the district court by virtue of 28 U. S. C. §§ 1291, 1294(1) and 2253.

Statement of the Case.

Appellant, petitioner below, filed a Petition for a Writ of Habeas Corpus alleging that he was illegally inducted into the United States Armed Forces. Pursuant

to the petition, the court below issued an order directed to the respondents (appellees) to show cause why a writ of habeas corpus should not issue. The Order to Show Cause also restrained the Commanding Officer of the Armed Forces Examining and Induction Station, Los Angeles, California, from removing the petitioner from the Central Division of the United States District Court, Southern District of California, pending the hearing and determination of the Petition for a Writ of Habeas Corpus. On August 28, 1963, the Petition for a Writ of Habeas Corpus was dismissed and the Order to Show Cause was discharged.[1]

Facts.

The facts pertinent to this appeal are as follows:

On February 6, 1963, the petitioner's local draft board mailed the petitioner a Notice of Classification (SSS Form No. 110) informing him that he had been classified in draft classification 1-A [certified copy of petitioner's Selective Service File, page 14, attached as Ex. "A" to respondents' Return to Order to Show Cause and Answer to Petition for a Writ of Habeas Corpus].[2] On February 25, 1963, the petitioner was ordered to report for induction into the Armed Forces of the United States. [Ex. "A" p. 89.]

---

[1]On August 26, 1963, the court below allowed the petitioner bail pending appeal and also restrained the respondents from removing the petitioner from the jurisdiction of the court. On September 16, 1963, this court revoked the petitioner's bail and on September 24, 1963, vacated the district court's restraining order.

[2]Hereinafter referred to as Exhibit "A".

On February 27, 1963, the petitioner wrote his local draft board requesting postponement of induction and a special hearing. [Ex. "A" p. 90.][3]

On February 28, 1963, the petitioner, in another letter to his draft board, conceded that his request for a personal appearance was submitted after the period allowed for such a request had passed, but requested the board to favorably consider granting him a special hearing. [Ex. "A" p. 92.]

On February 28, 1963, the local board informed petitioner that a special hearing could not be granted but that any additional information he wished to submit for consideration would be evaluated by the board at their meeting on March 6, 1963. [Ex. "A" p. 91.] [By way of background, the following facts are material: On October 18, 1961, the petitioner informed his local board that his dependency status had changed and that he was the sole support of his mother who was suffering from Parkinson's disease. [Ex. "A" p. 34.] On March 25, 1962, the petitioner submitted a Dependency Questionnaire to his local board which stated that he was contributing $75 a month for his mother's support. [Ex. "A" p. 41.] On April 25, 1962, the local board informed the petitioner that the facts presented in the Dependency Questionnaire did not warrant reopening or reclassification. [Ex. "A" p. 47.] On January 11, 1963, Paul K. Robertson, an attorney, wrote a letter to the "Selective Service Bureau, Local Draft Board,

[3]The respondents admit that this letter can be considered to be a request for a personal appearance.

1206 Main Street, Los Angeles, California" informing them that the petitioner had been appointed conservator or guardian of his mother's estate. [Ex. "A" p. 70.] This letter was forwarded to Local Board 30, 1322 Nevin Avenue, Richmond, California, the petitioner's local board, and was received by them on January 17, 1963. [Ex. "A" p. 81.] On January 19, 1963, the petitioner submitted another Dependency Questionnaire to his local board. [Ex. "A" pp. 83-86.] On February 25, 1963, the petitioner was ordered to report for induction into the Armed Forces of the United States.]

After receiving the board's letter informing him that he could submit additional information for their consideration [Ex. "A" p. 91], the petitioner wrote the board that there were certain documents, such as the court papers appointing him conservator and doctors' letters, that were not in the file. [Ex. "A" p. 97.] On March 6, 1963, the local board informed the petitioner that the order to report for induction was postponed so that he would be able to exercise his right of appeal. The board also requested that he submit documents showing his appointment as conservator or guardian of his mother's estate, the value of the estate, and a physician's statement of his mother's physical condition. [Ex. "A" p. 100.] On May 4, 1963, the petitioner's local board informed him that a review of his file did not warrant a reopening of his classification and that the file would be forwarded to the Appeal Board. [Ex. "A" p. 135.] On May 16, 1963, the Appeal Board, by a vote of 3 to 0, classified the petitioner 1-A. [Ex. "A" p. 137.] Appellant was then inducted into the United States Army on July 29, 1963.

Issues Presented.

Was the Appellant Illegally Inducted Into the United States Army?

I. Was the Appellant Entitled to a Personal Appearance Before His Local Board?

II. Was the Local Board Required to Reopen the Appellant's Classification and/or Did Its Actions Constitute Such a Reopening?

III. Can This Court Inquire Into the Decision of the Local Board That the Evidence Submitted by the Appellant Did Not Warrant a Reopening of His Classification? (Did the Board Act Arbitrarily, Capriciously and Without Basis in Fact in Denying the Request to Reopen)?

IV. Are the Respondents the Proper Parties to This Action?

ARGUMENT.

I.

Was the Appellant Entitled to a Personal Appearance Before His Local Board?

The regulations concerning a draft registrant's right to a personal appearance are in 32 C. F. R. The pertinent portion of the regulation involved is as follows:

> "§ 1624.1 *Opportunity to appear in person.*
>
> (a) Every registrant, after his classification is determined by the local board . . . shall have an opportunity to appear in person before the member or members of the local board designated for the purpose if he files a written request therefor within 10 days after the local board has mailed a Notice of Classification (SSS Form No. 110) to him. *Such 10-day period may not be extended.*" (Emphasis added.)

The Notice of Classification sent to the appellant (SSS Form 110) also makes mention of the time limitation regarding the right of a personal appearance before the local board and/or appeal.

In his Opening Brief, the appellant argues that the personal appearance is of the greatest importance when a registrant believes that his draft classification is erroneous. This may be true, but the registrant must still comply with the procedural requirements. The request must be made *within* ten (10) days of the mailing of the Notice of Classification, except in certain instances not material here. As the regulation involved (C. F. R. 1624.1(a)) prohibits an extension of the 10-day period within which to request a personal hearing,

the appellant's local board was without authority to grant the appellant's tardy request for the personal appearance. Since the appellant did not comply with the procedural requirements he cannot now complain that he was denied due process. [See, *United States v. Monroe,* 105 F. Supp. 785 (S.D. Calif. 1957), *Feuer v. United States,* 208 F. 2d 719 (9th Cir. 1953), *United States v. Bonga,* 201 F. Supp. 908 (E. D. Mich. 1962).]

II.

Was the Appellant's Local Board Required to Reopen the Appellant's Classification and/or Did Its Actions Constitute Such a Reopening?

The regulations concerning the reopening of a registrant's draft classification are found in 32 C. F. R. 1625. The pertinent portions are as follows:

> "§ 1625.1 *Classification not permanent.*
>
> (a) No classification is permanent. . . ."
>
> "§ 1625.2 *When registrant's classification may be reopened and considered anew.*
>
> The local board may reopen and consider anew the classification of a registrant (a) upon the written request of the registrant, . . ., if such request is accompanied by written information presenting facts not considered when the registrant was classified, which, if true, would justify a change in the registrant's classification; . . . provided, in either event, the classification of a registrant shall not be reopened after the local board has mailed to such registrant an *Order to Report for Induction (SSS Form No. 252)* or an Order to Report for Civilian Work and Statement of Employer (SSS Form No. 153) unless the

local board first specifically finds there has been a change in the registrant's status resulting from circumstances over which the registrant had no control."[4] (Emphasis added.)

Appellant's citation of the above regulation is incomplete in that it omits that portion of the regulation emphasized by appellees. (See pp. 19, 20, of App. Op. Br.)

Appellees contend that the fact that the regulation states a classification may not be reopened after an Order to Report for Induction is mailed to the registrant is controlling in the instant case, and as the appellant was mailed an Order to Report for Induction on February 25, 1963 [Ex. "A" pp. 14 and 89] three days prior to the appellant's request for a personal appearance, the local board could not reopen the classification.

In *Feuer v. United States, supra* (9th Cir. 1953). this court held that under regulations dealing with reopening and renewed consideration of a registrant's classification a local board was not obligated to reopen a classification upon the registrant's request after the board had mailed him an Order to Report for Induction. (Where a registrant does not take advantage of his administrative remedies, he cannot complain that he was denied due process.) [See, *United States v. Mohammed,* 288 F. 2d 236, cert. den. 82 Sup. Ct. 37, 368 U. S. 820, 7 L. Ed. 2d 26, reh. den. 82 Sup. Ct. 238, 368 U. S. 922, 7 L. Ed. 2d 137, *United States v. Bartelt,* 200 F. 2d 385 (7th Cir. 1952).] Also, the requirement that a classification could be reopened after an Order to Report for Induction is mailed only

---

[4]Section 1625.3(b) allows for reopening after a notice of induction if the registrant is entitled to a I-S deferment.

if there is a change in the registrant's status resulting from circumstances over which he had no control is not met in that the appellant's claim for a dependency classification was in effect prior to the time that the Order to Report for Induction was mailed. *Boyd v. United States,* 269 F. 2d 607 (9th Cir. 1959) and *United States v. Bonga, supra.*

Next, we come to the question of whether or not the board's action constituted a reopening. (Appellees assume that the appellant refers to the board's action in requesting additional information, considering this information, postponing the Order to Report for Induction, and transmitting the file to the Appeals Board.) In support of this contention the appellant cites the following Second Circuit cases: *Packer v. United States,* 200 F. 2d 540 and *Vincelli v. United States,* 215 F. 2d 210, rehearing 216 F. 2d 681. In *Packer, supra,* the Circuit Court found that the actions of a local board in cancelling an order of induction and allowing an appeal of the classification to the Appeal Board was considered a reopening of the case. Applying the *Packer* decision to the case at bar, the appellant contends that he, therefore, would be entitled to a reclassification and the attendant rights of a personal appearance, and, that by denying him that right would be a violation of due process.

The *Packer* case was reversed on what appears to be other grounds in *United States v. Nugent,* 346 U. S. 1, 73 Sup. Ct. 991, 97 L. Ed. 1417. This decision in *Nugent* had an effect on the Second Circuit's original decision in *United States v. Vincelli, supra.* In the rehearing of the *Vincelli* case, the court stated the effect of the Supreme Court's decision in *Nugent* on the Cir-

cuit's decision in *Packer*. This is found in 216 F. 2d 681, 682 and reads as follows:

"... .

Judge Chase believes that the reversal of United States v. Packer, 2 Cir., 200 F.2d 540 by the Supreme Court in United States v. Nugent, 346 U.S. 1, 73 S. Ct. 991, 97 L.Ed. 1417, left untouched our holding that in the Packer case what the local board did amounted to a reopening. . . .

Judges Frank and Hincks, however, are of the opinion that the mandate of the Supreme Court in the Packer case, the terms of which did not appear in the opinion of the Court as reported in 346 U.S. 1, 73 S.Ct. 991, 97 L.Ed. 1417, was correctly construed by the trial court in the Packer case on remand as carrying a reversal of our holding that Packer's original classification had been reopened, since they feel that, were this not so, the Supreme Court would have held that Packer was denied procedural due process when the local board, by not sending him a new Form 110 notice, deprived him of an opportunity to request a personal appearance before it.

But even so, we all agree that what the Supreme Court did in the Packer case does not preclude us from holding that Vincelli's 1-A classification was reopened. At most it destroys our Packer decision as a valid authority for that holding. For in Packer, the action of the local board, which we held to constitute a reopening, occurred while an order of induction was outstanding. And Regulation Sec. 1625.2 provided that 'the classification of a registrant should not be reopened after the local

board has mailed to such registrant an Order to Report for Induction, . . . unless the local board first specifically finds that has (sic) been a change in the registrant's status resulting from circumstances over which he has no control.' There had been no such finding in the Packer case and if the Supreme Court held that there had been no reopening in that case, for aught that appears the ruling may have turned upon the fact that Packer had already been ordered to report for induction. . . ."

The above *Packer* and *Vincelli* decisions, cited by appellant in support of his claim that there was a reopening by the local board, supports the claim of the appellees that the actions of the local board in transmitting the appellant's file to the appeals board does not constitute a reopening of his classification.

III.

Can This Court Inquire Into the Decision of the Local Board That the Evidence Submitted by the Appellant Did Not Warrant a Reopening of His Classification? (Did the Board Act Arbitrarily, Capriciously and Without Basis in Fact in Denying the Request to Reopen)?

Although the appellees have shown that the local board could not, under existing regulations, reopen the appellant's classification, assuming that the court finds that the local board could have reopened the draft classification, the question now involved is, was the decision of the board a valid exercise of discretion or was its decision not to reopen arbitrary, capricious and without basis in fact.

The appellant cites *Dickenson v. United States,* 346 U. S. 389 (1953) and others for the proposition that upon the evidence presented by the appellant, the local board was required to reopen the appellant's draft classification, and their refusal to do so was arbitrary, capricious and without basis in fact. The appellees contend that the line of cases starting with *Dickenson* is limited to situations where a ministerial or conscientious objector deferment is involved, and these cases are not applicable to a dependency or hardship deferment.

Conceding the truth of the appellant's allegations concerning his conservatorship of his mother's estate and his mother's physical and mental condition, this is not sufficient reason upon which to defer the appellant on grounds of extreme hardship. In *Dickenson* and the cases following, the registrant is either entitled to a conscientious objector or ministerial deferment or he is not so entitled. [There are a line of cases holding that as an exemption from military service is an act of legislative grace, it may be abandoned by a selective service registrant's acts like any other personal privilege and to avail himself of the exemption, the registrant must comply with the regulations. *United States v. Schoebel,* 201 F. 2d 31 (7th Cir. 1953), *Keene v. United States,* 266 F. 2d 378 (10th Cir. 1959), *Boyd v. United States, supra, United States v. Bonga, supra.* (These cases deal with conscientious objector claims made after a Order to Report for Induction has been mailed the registrant).] In the appellant's situation the board decided that the evidence the appellant produced did not warrant a deferment on a hardship basis.

The regulation setting forth the requirements for such a deferment for reasons of *extreme* hardship require that the dependant be dependent upon the registrant for support, or in the case of a physically or mentally handicapped person the registrant assumes such support in good faith. 32 C. F. R. § 1622.30(b). The documents submitted by the appellant [Ex. "A" pp. 116-121] show that he was conservator of his mother's estate, and that the estate was valued at $17,444.77. In the Dependency Questionnaire submitted by the appellant [Ex. "A" pp. 83-86] the appellant did not show what amount of money he contributed to his mothers' support, he only stated that the monthly amount he contributed varied. He also stated that "I am now just beginning to bring in some income from the estate". The questionnaire also stated that his mother had remarried.

In the case of *Micheli v. Paullin,* 45 F. Supp. 687 (D.C. N.J. 1942), which concerned a dependency deferment, the court stated:

> ". . . The board had ample evidence before it to support its decision that the parents of the petitioner could sustain themselves in some manner for the duration of the war and to alter that decision would be purely a substitution of the court's judgment for that of the executive agencies under the Act and would make the court instead of the executive agencies the deciding mechanism as to who should serve in the Army, a function reserved alone for the Selective Service agency.
> . . . ." (P. 691.)

To show an abuse of discretion, the appellant must clearly demonstrate such an abuse, and, if there is any

rational basis upon which the Board's conclusion can be justified, it cannot be said to have acted arbitrarily or capriciously. *United States v. Stalter,* 151 F. 2d 633 (7th Cir. 1945).

Based upon the facts available to the local board, it cannot be said that the board's refusal to reopen was arbitrary, capricious and without basis in fact.

As the board exercised its discretion in determining not to reopen the classification, this court cannot inquire into the reasons for the board's decision. The leading case in the area of judicial review of a local board's actions is *Estep v. United States,* 327 U. S. 114, 66 Sup. Ct. 423, 90 L. Ed. 567. In that case the court stated:

> ". . . The provisions making the decisions of local boards 'final' means to us that Congress chose not to give administrative action under this Act the customary scope of judicial review which obtains under other statutes. It means that the courts are not to weight the evidence to determine whether the classification made by the local boards was justified. The decisions of the local boards made in conformity with the regulations are final even though they may be erroneous. The question of jurisdiction of the local board is reached only if there is no basis in fact for the classification which it gave to the registrant.
> . . . ." (P. 122.)

See also *United States v. Mohammed, supra, Dickenson v. United States, supra, Witmer v. United States,* 348 U. S. 375, 75 Sup. Ct. 392, 99 L. Ed. 428 (1955), *United States v. Diercks,* 223 F. 2d 12 (7th Cir. 1955), *United States v. Monroe,* 150 F. Supp. 785 (S.D. Cal. 1957).

Concerning the appellant's argument based on Executive Order 11119, this order is not material to this appeal as it took effect after the appellant's induction into the United States Army.

IV.

Are the Respondents the Proper Parties to This Action?

In the order dated September 16, 1963, this court requested briefs "on what jurisdiction the district court had or this court now has over the Secretary of Defense, whether he is a proper party, and whether the Commanding Officer of the Induction Station now is or ever was a proper party defendant".

As the Commanding Officer of the Induction Station was the person who had actual physical custody of the petitioner at the time the petition was served and was capable of producing the petitioner in court, he was the proper party to be named as respondent. *Commanding Officer, United States Army Base, Camp Breckinridge, Kentucky v. United States, ex rel Bumanis,* 207 F. 2d 499 (6th Cir. 1953), *Jones v. Biddle,* 131 F. 2d 853, cert. den. 63 Sup. Ct. 856, 318 U. S. 784, 87 L. Ed. 1152, rehearing den. 63 Sup. Ct. 1027, 319 U. S. 780, 87 L. Ed. 1725, and 63 Sup. Ct. 1431, 319 U S. 785, 87 L. Ed. 1728, *DeMaris v. United States,* 187 F. Supp. 273 (D.C. S.D. Ind. 1960).

Concerning the naming of the Secretary of Defense as a respondent, it appears that neither the district court nor this court has jurisdiction over the Secretary. This is by analogy to the *DeMaris* case, *supra,* where the court found that even though a prisoner had been committed to the custody of the Attorney General for

confinement, he is not a proper party to be served where a writ of habeas corpus is involved. His connection with federal penitentiaries is only supervisory and the proper person to name as respondent is the warden of the prison where the inmate is confined.

It would, therefore, appear that this action should be dismissed as against the Secretary of Defense.

Conclusion.

Wherefore, for the reasons set forth above, it is respectfully submitted that this court has no jurisdiction over the Secretary of Defense and, that the decision of the district court denying the appellant's Petition for a Writ of Habeas Corpus be affirmed.

Respectfully submitted,

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Certificate.

I certify, that, in connection with the preparation of this brief, I have read Rules 18 and 19, Rules of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

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IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

See Vol. 3788

TEMPLETON PATENTS, LTD., *Plantiff-Appellant,* vs. J. R. SIMPLOT COMPANY, *Defendant-Appellee.*	No. 18899
TEMPLETON PATENTS, LTD., *Plaintiff-Appellant,* vs. J. R. SIMPLOT COMPANY, *Defendant-Appellee.*	No. 18900

FILE

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PREFATORY NOTE

This Brief has been prepared pursuant to the permission of Rule 18(6). It deals with two appeals, one from an adverse judgment in a civil action presenting the purely Federal question of patent infringement and the other from an adverse judgment in a second civil action involving the same parties, inventions, and events presenting the non-Federal question of the existence of an enforceable licensee or quasi-licensee relation. Pursuant to leave of this Court, appellant presents a single brief in both appeals in which the indices [Rule 18(2)(a)], statement of the case [Rule 18(2)(c)], specification of errors [Rule 18(2)(d)], exhibits table [Rule 18(2)(f)], and certificate [Rule 18(2)(g)] are common to both appeals, but the arguments [Rule 18(2)(e)] are separately summarized and set out. Pursuant to permission granted, this Brief, will exceed 80 pages in length [Rule 18(2)(e)], but will fall substantially short of the 160 pages that would have been allowable without leave had the appeals been wholly separately briefed and argued.

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

TEMPLETON PATENTS, LTD., Plaintiff-Appellant, vs. J. R. SIMPLOT COMPANY, Defendant-Appellee.	)	No. 18899
TEMPLETON PATENTS, LTD., Plaintiff-Appellant, vs. J. R. SIMPLOT COMPANY, Defendant-Appellee.	)	No. 18900

BRIEF FOR APPELLANT

Statement of Jurisdiction

These are appeals from judgments adverse to the plaintiff in two civil actions in the United States District Court for the District of Idaho which, by permission, have been combined for hearing in this Court as was done below. As explained in the "Prefatory Note", supra, this Brief covers both appeals.

Plaintiff is a British corporation, the owner of the three patents in suit, No. 2,119,155 (the "Faitelowitz patent"), No. 2,352,670 (the "Volpert patent"), and No. 2,520,891 (the "Rivoche patent"). Defendant is a Nevada corporation domiciled in Idaho, charged with having processed potatoes in accordance with inventions covered by certain claims of each of these patents to produce the dehydrated powdered product popularly called "instant mashed potato".

Civil Action 3514 (the "Patent Case"), here No. 18899, was

an ordinary patent infringement action. Trial was of the issues of validity and infringement framed by the Second Amended Complaint, filed October 14, 1959 (99 R 6)*, the Answer thereto and Counterclaim (99 R 11), filed June 29, 1961, and the Reply, filed July 6, 1961 (99 R 29). Jurisdiction of the District Court was based on 28 U.S.C. § 1338(a).

Civil Action 3574 (the "Contract Case"), here No. 18900, was an action for an accounting for damages in excess of $10,000, exclusive of interest and costs, arising from breach of an enforceable relationship between the parties amounting to a license (or at least a quasi license) with respect to the inventions of the patents involved. Trial was of the issues framed by the Complaint, filed February 1, 1960 (00 R 1), and the Answer, filed September 19, 1960 (00 R 11). Jurisdiction of the District Court was based on the diversity of citizenship of the parties and the amount in controversy, 28 U.S.C. § 1332(a)(2).

The Honorable Fred M. Taylor, District Judge, entered a final judgment on May 24, 1963 in each case (99 R 117; 00 R 52) dismissing the complaint therein and in the Patent Case, granting defendant below certain injunctive relief sought by it. Notices of appeal pursuant to Rule 73, F. R. Civ. P., were filed on June 20, 1963 (99 R 119; 00 R 54). Jurisdiction of this Court is based on 28 U.S.C. § 1291.

Statement of the Case

There is, in appellant's view, no better existing statement of the essential facts of these cases than that made by Judge Taylor at the outset of his Memorandum Opinion (99 R 69-75). Appellant here sets

* Citations to the records herein will be made in these forms: To the Record in No. 18899 - (99 R 11); To the Record in No. 18900 - (00 R 11); To the Reporter's Transcript - (T 11).

out this statement totidem verbis, with minor elaboration noted, and, as so quoted adopts it. The full significance of these essential facts will be explained in the argument that follows.

"[99 R 69] Plaintiff is a British corporation and is owned principally by Robert A. S. Templeton and his wife. Templeton is the chairman of the board and its managing director. Defendant is a corporation of the State of Nevada and has a principal place of business in the City of Boise, State of Idaho. This Court has jurisdiction under Sections 1332, 1338(a) and 1400(b), Title 28, U.S.C.A.

"The facts and circumstances of the two lawsuits are closely related. Each suit involves a process for making a dehydrated potato powder which will, when combined with warm milk or water, readily reconstitute into a palatable dish of mashed potatoes comparable with that made by the common method using the fresh raw potato. Defendant is one of the leading manufacturers of this product in the United States. Plaintiff is the owner of three patents, each of which discloses a process for making said product, and it contends that the defendant's process infringes certain claims of each patent: namely, claims 1, 2, 4, 5, 6, 7 and 8 of United States Patent No. 2,119,155, issued to Arnold Faitelowitz and Marcos Bunimovitch on May 31, 1938; claims 3 and 7 of United States Patent No. 2,352,670, issued to Zelmanas Volpertas on July 4, 1944; and claims 16 and 17 of United States Patent No. 2,520,891, issued to Eugene Joel Rivoche on August 29, 1950.

"The evidence discloses that prior to the discoveries represented by the above patents the world had a long-felt need for a process which would produce an instant mash potato powder. Both World Wars especially created a demand for this dehydrated product [99 R 70] as well as others. Its minimum bulk and keeping properties

make it suitable for storage and, yet when combined with warm milk or water it instantly makes an acceptable food. The common potato is particularly adaptable for such a product because it contains approximately 80 per cent water by weight and 20 per cent solids, primarily starch. Many inventors recognized this fact, but until the 1930's none had been able to discover a process which would produce an acceptable food. Prior thereto inventors had been able to discover processes only for drying potato pieces or strips, or for making potato flour which could be used indirectly in the preparation of foods. However, in attempting to develop an instant mash potato product, two problems always plagued them: first, they had to prevent the starch cells from rupturing while being processed, or otherwise the reconstituted product would be pasty and unpalatable; second, they had to overcome scorching or, in other words, prevent the outer layer cells from hardening when drying, in order to render them reconstitutable when combined with warm milk or water. This is sometimes referred to as 'case-hardening'.

"The first substantial contribution to the art of processing an instant mash potato powder was made by Arnold Faitelowitz, in Paris, France, in the 1930's. He discovered that the starch cells of most starch-containing vegetables could be separated without rupturing them if the vegetable was first partially dried to a moist powder [, specifically to one] which had lost at the most about 60 per cent by weight of its original water content [,] before it was put through a second drying stage to reduce it to an acceptable product containing [99 R 71] only 10 to 15 per cent of its original water content. Each of said drying stages was accomplished by means of heat applied to the cooked vegetable, which had been cut into small pieces. Faitelowitz applied for a patent in Great Britain on June 10, 1936, which application serves as the basis for his United

States patent.

"Both parties admit that the Faitelowitz process is somewhat crude and difficult to perform. Unless the drying stages are conducted very skillfully, the heat causes case-hardening. As a result his process has never been used for commercial production anywhere in the world. However, it served as the basic idea for the successful processes which followed after his initial breakthrough.

"Volpertas and Rivoche were associated with Faitelowitz in France. Volpertas determined that the initial drying stage of the Faitelowitz process [producing the requisite moist powder] could be accomplished merely by adding some of the fully dried product to the cooked potatoes and allowing absorption to take place to reduce the [average] moisture content of the entire mixture. When the moisture content equalized it could then be further dried by the application of heat. By this means the risk of case-hardening was substantially decreased because drying by heat during the first stage of the process was eliminated, making the entire process more economical, less difficult to perform and more certain to produce an acceptable product. Volpertas' improvement on the Faitelowitz process is referred to herein as the add-back method or step. This method is old in the art of food dehydration, but Volpertas was the first to [99 R 72] apply it to a process for making an instant mash potato powder. Volpertas, whose name is now Zelman Volpert, applied for a patent in Great Britain on October 14, 1937, which application serves as the basis for his United States patent. His patented process will be more fully examined hereinafter.

"Rivoche is given credit for an improvement which prescribes limitations within which the Volpertas process can always be

successfully performed. Whereas Volpertas teaches that the add-back method should be used in the first drying stage until the moisture content of the mixture has been reduced by about one-half, Rivoche teaches that said method should be employed until the mixture contains not more than about one-half of its original moisture content. When the initial drying stage is conducted to that point or below, the then moist powder can be dried by heat without substantial risk of case-hardening. The British application which serves as the basis for Rivoche's United States patent was filed on September 16, 1939.

"These processes were first introduced to Templeton by Rivoche in Great Britain in 1939. For several years Templeton had been interested in the vegetable drying industry and had made studies in Europe to determine if a successful process for manufacturing an instant mash potato powder had been discovered. Rivoche was the first to show him an acceptable product and to disclose a feasible process for making the same. A year later Templeton obtained exclusive licenses to the processes in question in behalf of Farmers' Marketing & Supply Company, plaintiff's predecessor. During World War II an instant [99 R 73] mash potato drying industry arose in Great Britain based upon these same or similar processes.

"Meanwhile in the United States the defendant was engaged in fruitless efforts to discover or obtain a successful process to fill the needs of our government. Defendant met with no success despite the fact that it had adequate facilities, finances, and skilled men in the art. Its expert witness, Ray W. Kueneman, had been employed by the Department of Agriculture during World War II. He had visited dehydration plants abroad to gather information for our government, and had seen and made diagrams of plant operations in Great Britain which were using processes

similar to the ones in suit. After the war the defendant employed his services, but for the next five years a successful process still eluded it. Templeton visited the United States in 1945 and became acquainted with defendant's efforts. Defendant's officers professed an interest in plaintiff's processes; however, at this time plaintiff had not perfected its rights thereto in this country.

"Templeton returned to the United States in 1949. Having acquired to his satisfaction the exclusive world-wide rights to the above processes, he made another visit to the State of Idaho to confer with the officials of the defendant company. They expressed an interest in joining forces to develop the product in this country. On March 4, 1949, Templeton conducted a series of demonstrations at the defendant's plant in Caldwell, Idaho, during which he disclosed what he considered to be the basic teachings of the patents in suit. The record discloses that defendant was highly impressed by, and interested in, the processes. The [99 R 74] parties reached an informal understanding in regard to developing the processes and the industry in this country, which was to be formalized later subject to the approval of their respective legal counsel. The terms of said agreement were left to future negotiations which, as events transpired, were very extended, and the parties ultimately failed to reach an understanding. The nature and extent of their dealings is more pertinent to plaintiff's contract action. Suffice it to say here that while said negotiations were being conducted the Korean War occurred and defendant went into production to help fill the needs of our government. Defendant made no attempt at the trial to explain this sudden transition from failure to success in processing an instant mash potato powder. The conclusion is inescapable that it adopted the teachings of said patents for its own operations.

"The parties are in substantial agreement on what defendant's process is, and has been, since it began production. Its process is illustrated by Plaintiff's Exhibits No. 6 and No. 14, each of which was thoroughly explained by witness Ray W. Kueneman, director of research and development for the food processing division of the defendant company. It uses the Faitelowitz two-stage drying principle, but instead of drying by heat in the first stage as Faitelowitz teaches, defendant uses the add-back method. By this method defendant has always reduced the moisture content of the mixture to between 30 and 40 per cent before beginning the second drying stage. Defendant conducts the second drying stage by means of heat, or a stream of hot air, using dryers which [99 R 75] operate under a slightly subatmospheric pressure. This drying system reduces the moisture content of the mixture to approximately 12 to 14 per cent. Thereafter the moist powder is sifted and put through another system which reduces it to a finished product containing not more than about 6 to 7 per cent of its original moisture."

Specification of Errors

1. The District Court erred in concluding that the Faitelowitz patent had not been infringed.

2. The District Court erred in concluding that the Volpertas patent had not been infringed.

3. The Court erred in concluding that the Rivoche patent was invalid.

4. The Court erred in concluding that the parties had not entered into a relationship the breach of which by defendant gave rise to an enforceable claim for damages.

5. The Court erred in concluding that the so-called "contract" action had been barred by laches and the Statute of Limitations.

Those Findings and Conclusions particularly involved in each Error specified are set forth in full in the Appendix to this Brief with the particular passages containing error underlined.

SUMMARY OF ARGUMENT

A. The "Contract Case": The Understanding Itself

The inventions involved are for processes for making instant mashed potato powder. They were made by Baltic refugees in Paris before and were developed in England during World War II. At the time the United States had only the relatively unsatisfactory prior art dehydrated potato products of which J. R. Simplot was a principal supplier. England was supplied by F. M. S. (plaintiff's affiliate) and Chivers which got competing patents. After the war, Chivers' U.S. subsidiary, R. T. French, began making the product here while defendant, its military market gone, made two unsuccessful attempts to enter the new civilian market. F. M. S., after litigation brought Chivers under license in England and Templeton came to the U.S., acquired the U.S. rights, and sought a suitable U.S. licensee. Simplot expressed interest and they met in Boise. Plaintiff was to license Simplot under its patent rights, teach Simplot its know-how, protect Simplot against infringement claims, and, for an optional consideration keep Simplot's position exclusive. Simplot was to pay a reasonable royalty. This understanding was oral and was to be memorialized in written terms approved by the respective patent attorneys. The trial court erred in finding this understanding not to be enforceable as a matter of law.

Templeton demonstrated important aspects of the licensed processes to Simplot employees; mailed back to Simplot a written precis of the understanding, the accuracy of which was never denied; and supplied his written recommendations for machinery, production, and sales policy. Technical information was exchanged for several months. The conduct of the parties belies defendant's denial that an understanding had been reached.

Defendant's patent attorney doubted the wisdom of his client's entering into the understanding, but expressed only one proper concern, namely, the effect of the vesting of one licensed patent in the Alien Property Custodian. That the consequences of the temporary defect in plaintiff's title to the licensed rights was negotiable under the terms of the understanding itself is shown by a later offered formal memorial signed by defendant.

Limitations and Laches. Defendant used plaintiff's title problem to avoid signing a memorial. Simplot repeatedly said he would sign when his patent attorney was satisfied and spoke of "our deal on granular patent". Meetings between the parties and between their counsel continued until after title had been perfected and to within the four year limitation period before filing suit. Thus as of February 1956, plaintiff's cause of action had not become complete. In plaintiff's view, the understanding became binding and enforceable in 1949, but plaintiff had not completely performed its part until 1956 and therefore its cause had not accrued until then.

B. The Patent Case: Faitelowitz

He disclosed and claimed a process for making dehydrated instant mashed potato powder in which the potato cells were unruptured and which produced the first product to be truly palatable. His method was to dry in two stages producing an intermediate product of a moist powder, by which the potato cells were effectively separated. Defendant cooks its potatoes and adds back to them already dried powder, mixing the dry granules and the wet potato to produce, by moisture transfer, the first stage of drying and the moist powder characteristic of Faitelowitz. The claim recites the first stage of drying as being done at less than a certain (scorch) temperature. The trial court erred in finding that this reference

to temperature required the claim to be limited to pre-drying by heat. Two-stage drying with the production of an intermediate moist powder is a patentable process, not a "principle", i.e., neither a law of nature nor a mere result (a palatable dehydrated potato).

Volpertas. The father of add-back. His claim 7 is clearly and literally infringed by defendant's operation. Volpertas, a co-worker of Faitelowitz, had several closely related proposals, all of which he filed applications on. The claims include but are not limited to the add-back proposal which is explicitly described in the specification.

Rivoche. After holding that certain language in Volpertas neither disclosed nor claimed add-back thus rendering the Volpertas claim not infringed, the trial court apparently reversed and found the Volpertas language sufficient to make Rivoche's improved add-back proposal obvious. This Court must resolve this inconsistency. No other disclosure makes Rivoche's moisture limitation obvious, and the industry after trying other approaches, has come to recognize the limitation as essential.

ARGUMENT

I. The "Contract Case"

Introduction

Appellant takes up the errors in the decision in the "Contract Case" first. It does so because the necessary review of the facts in that case is a review instructive on matters pertinent to the issues both of validity and infringement in the "Patent Case", while little of the Patent Case background question of the prior art or its foreground question of the sufficiency of the patents viewed as documents is helpful in considering the Contract Case.

Moreover, if appellant succeeds in the Contract Case, it establishes appellee as a licensee which has obvious bearing on the patent issues.

Scope of Review

The "Contract Case" was tried together with the "Patent Case" without any attempt to specify that witnesses or their testimony or the exhibits were relevant solely to one or the other controversy. The trial took up the better part of seventeen court days after which the Court received extensive briefs and rendered a comprehensive Memorandum Opinion (99 R 68). On essential facts there is so little difference between trial judge and plaintiff that plaintiff's Statement of the Case in this Court is the trial judge's own, with two minor elaborations. On the applicable law, there is a complete difference of view between trial judge and plaintiff. So complete is this difference that it is reflected in conclusory portions of the Findings of Fact adopted from a draft by defendant some two and a half months after the Memorandum Opinion. Nevertheless, Rule 52(a), F.R. Civ. P., has little bearing on the review of the judgment

in the Contract Case.

First, the trial judge expressly based his opinion on the correspondence* between the parties and gave no weight to testimony about events that had taken place up to 13 years earlier (00 R 46, Finding VII). This court may freely review his decision, Lundgren v. Freeman, 307 F. 2d 104 (9 Cir. 1962).

Second, the errors made turn so closely on the correct law to be applied that this appeal may be said to be governed by the rationale of a passage from this Court's opinion in Lundgren v. Freeman, supra, at page 113:

> "...an inference derived from the application from a [an assumed] legal standard and not derived from having had 'experience with the main springs of human conduct'".

That this ruling is applicable presently is clear from the opinion which

* All contained in Plaintiff's Exhibit 8.

In addition to the record, appellant has prepared two additional copies of certain exhibits designated by one or the other of the parties for the convenience of the Court. These extra copies are in three volumes of Plaintiff's Exhibits and three volumes of Defendant's Exhibits. The parties have numbered each page of each of these volumes with RED numbers, each volume being numbered separately. Many of the exhibits also bear BLACK numbers put on during the discovery period and these should be ignored. All citations to exhibits will be in the form: (PX 8, III-42). This means "Plaintiff's Exhibit 8, which will be found in Volume III of the bound extra copies of Plaintiff's Exhibits at page 42." Prior to the time the original exhibits are placed before the Court for consideration corresponding RED numbers will be placed on them so that the "42" will also refer to RED page number 42 of Exhibit 8 which is itself a binder of some 216 pages of letters and other items of inter-party correspondence.

presents the apparently anomalous result of "finding" that the parties reached an "understanding" in March 1949, but denying that an enforceable "agreement" was entered into. This result can only be explained on the basis that the trial judge believed that some assumed legal standard compelled him to rule that the understanding which his experience with the main springs of human conduct had led him to find had actually been reached did not amount to a legally enforceable agreement.

A. The Background Facts and Prior Contacts that Led to the Understanding

Both this Court and the courts of Idaho have ruled that the circumstances preceding a contract negotiation may be examined both to construe ambiguous terms and to determine the intent of the parties. Commodity Credit Corp. v. Rosenberg Bros. & Co., 243 F. 2d 504 (9 Cir. 1957); Rudeen v. Howell, 76 Idaho 365, 283 P. 2d 587 (1955). The historical and technical background of the potato drying industry and of the post-war potato drying industry will in large measure explain the intent and purpose of the present parties when they met at Boise to negotiate a license in March 1949.

Historical

As this Court undoubtedly would expect, the origin of potato drying is lost in antiquity (PX 32, II-149). However, as Judge Taylor found (99 R 97), the best dehydrated products produced by the 1930's were either unpalatable strips or potato flour usable as a food indirectly. The popularity of potatoes and the fact that in their natural state, raw or cooked, they contain about 80% water make them an ideal potential food to be usefully dehydrated. Recognition of this fact had created a want felt long before the First World War and the demand

was intensified by the Second World War.

Speed of rehydration is most important in establishing the utility of a dehydrated product. A product that is slow and difficult to rehydrate cannot be used in fast moving situations and may present special problems of refrigeration and sanitary handling. What was wanted was, in today's terminology, "instant mashed potato", a product that would reconstitute in moments and would have the taste and texture of freshly prepared potatoes, neither stale nor gummy. No success had been made until the breakthrough of the co-workers Faitelowitz, Volpertas and Rivoche (F-V-R) in Paris in the late 1930's.

In September 1939, Dr. Rivoche came to England and showed a sample of his powder (often called granules) to Mr. Templeton (T. 164). He had earlier been by the Potato Marketing Board, a governmental agency (T. 165) and even earlier had visited the British War Office (PX 11, tab. 40, III-296), leaving a sample and demonstrating its rehydration capabilities. Mr. Templeton's company subsequently acquired a license under the English patent rights of the three inventors (DX 16, I) and made potato granules using the F-V-R two-stage drying and add-back processes (T. 168). Meanwhile another English concern, Chivers & Company, had begun what became large scale manufacture of potato granules for the British Armed Services (T. 169). Their specific process was the work of their technical staff, including Theodore Rendle, who obtained a United States patent (DX 17, I-134).

Faitelowitz had obtained his United States patent in 1938 (PX 1, I-6). Volpertas had filed two United States applications, Volpertas I in 1938 and Volpertas II in 1939, and his U.S. patent issued in 1944 on a continuation-in-part application, Volpertas III, filed in 1942 (PX 2, I).

As Rivoche was in France during the war, his United States application was not filed until 1948, claiming, however, via the Boykin Act, his 1939 priority.

Late in 1945, Mr. Templeton first met defendant's President, Mr. J. R. Simplot. Templeton had come to the United States on an extended British Government mission to visit food processors (PX 8, III-10). He visited the Simplot plant at Caldwell, Idaho, and met several key technical personnel there, including the then food technician, Ray L. Dunlap (PX 8, III-12, 13).

J. R. Simplot Company had been one of the major suppliers of prior art forms of dehydrated potatoes for the United States Armed Services during World War II (PX 11, Tab 4). During his 1945 meeting with Templeton, Simplot expressed interest in granules and Templeton, who then had no United States rights, told him generally of the patent situation (PX 8, III-133). The situation at that time was that Chivers & Company and the Templeton interests were engaged in litigation over the priority of inventorship of the add-back process, the Chivers petition having been filed in England on November 22, 1945 (T. 775).

Apparently Mr. Simplot decided not to follow up his interest in the granule process at that time. His company was then engaged with others in developing a "freeze-squeeze" dehydration process (T. 1000). Although an edible dehydrated potato was produced, technical difficulties were apparently insurmountable and production ceased the following winter (PX 8, III-24).

That winter, 1947-1948, defendant began making a continuously dry extruded product called "minute potato". This product took longer to reconstitute and was more difficult to prepare than the granules here

involved. Mr. Dunlap in 1947 spoke highly of the product (PX 8, III-24), but within a year was writing Mr. Templeton that, "To date there is not on the market here any really good instant mashed potato and if things keep on it will be some time before they get going." (PX 8, III-31).

In 1947 Dunlap had informed Templeton that the R. T. French Company was producing a potato granule reputedly by the "Chivers" process (PX 8, III-22), and later asked (PX 8, III-25) whether anybody in the United States was producing potatoes according to Templeton's process. Mr. Templeton answered the latter question in the negative (PX 8, III-26).

In the spring of 1948, during the hearings of the English litigation, Chivers withdrew and took a license under the Faitelowitz-Volpertas-Rivoche patents (T. 678). It thus conceded that its technician Rendle was subsequent to Volpertas as to the Volpertas invention and the United States Patent Office found him subsequent to Rivoche in 1950 by awarding the latter two of Rendle's claims in substance, those presently in suit (PX 3, II-88-96).

The proposed Chivers license was subject to the approval of Messrs. Volpertas and Rivoche who were by then in the United States. Mr. Templeton came here to see them and while here negotiated for and acquired the worldwide rights under their patents, including the United States patents and applications (T. 676, 678; DX 16, I).

Also while here Templeton telephoned Simplot while the latter was in New York City and told him about the newly acquired United States rights. Simplot apparently reaffirmed his interest in the United States patents (PX 8, III-133). Templeton returned to England where he wrote Simplot again specifically asking him whether he was interested in

taking a license. "My general idea is, subject to prospects, to come over to the States again in January, I would like, if you are seriously interested, to come to some satisfactory arrangement with you also at that time." (PX 8, III-35). The latter enthusiastically responded in the affirmative (PX 8, III-36) subject to only one condition which was that "a survey should support the economical soundness of such a venture". Templeton returned to the United States early in 1949 to negotiate (T. 683). Simplot met with both Templeton and Rivoche in Washington, D. C., and had further talks with them in New York City (PX 8, III-134), before Templeton went on to Rochester to meet with R. T. French and ultimately to Boise in March 1949.

The Value of the "Know-How"

Defendant went to some pains to demonstrate the knowledge on the subject of granules said to have been acquired by its people before March 1949. Two lengthy exhibits (DX 33, II and DX 34, III) comprise the documentary material defendant asserted was in its files as of that date. In addition, defendant's Director of Research, Mr. Ray W. Kueneman, testified he had actually visited the Chivers dehydration plant in England during World War II.

However, plaintiff asserts the strongest evidence of the value of Templeton's advice to defendant during March 1949 is defendant's 1947 abortive foray into making granules by the "freeze-squeeze process" and its equally abortive attempt with the dehydrated "minute potato" of 1948.

As Judge Taylor said, "defendant made no attempt at the trial to explain this sudden transition from failure to success" (99 R 74).

The Chivers Process

As Dunlap's letters show, there was a definite misunderstand-

ing by defendant about the relationship of the F-V-R patents and the Chivers process. Dunlap in 1947 evidentally assumed they were two separate processes. Although defendant asserted knowledge of Rendle's British as well as American patents (DX 34, III), it is apparent defendant did not appreciate that the "Chivers' process", the R. T. French and Rendle's process were one and the same. What was known was only that R. T. French was producing a granule by a patented process developed in England.

Templeton's Position

Templeton came to the United States in 1948 and 1949 knowing that the "Chivers' process" and his newly acquired United States F-V-R rights were one and the same. He knew his English patent position had been sustained after an attack by Chivers and he was confident that his United States position would similarly dominate the granule market. It was a repeatedly stated condition of Templeton's that his United States patents should be presumed valid. "The principal ground for our belief is that a substantial challenge has been made and successfully rebutted in the U.K." (PX 8, III-145).

In his letter of March 8, (PX 8, III-49) and undoubtedly earlier, Templeton informed Simplot of Rendle's United States patents and stated that R. T. French's manufacture under them "infringes the art disclosed in their original documents in favor of Faitelowitz, Volpertas and Rivoche". He felt sufficiently confident not only to offer an exclusive license under his patents, but also to guarantee against any adverse consequences by reason of infringement of the other patents (PX 8, III-83, Par. 3; -120, No. 10).

Defendant's Incentive

Defendant had been one of the major producers of dehydrated potatoes in World War II. No civilian market had developed for those products. Defendant attempted a comeback with the "freeze-squeeze process". That had failed. Defendant had attempted a comeback with the "minute potato" with equally unimpressive results. Now a new and presumably patent-protected granule process was being developed in the United States by the principal competitor, R. T. French Co. By late 1948 it became clear that if defendant was to continue with the dehydrated potato business it would have to enter the newly developed granule process. Mr. Templeton then had three important and inter-related items to offer Simplot. Firstly, he offered him the advice and experience of a man who had successfully produced the product; secondly, he offered him through an exclusive license freedom from competition; and thirdly, he offered him a guarantee against possible infringement of an already established and presumably valid patent position. It is not surprising that Mr. Simplot responded with some enthusiasm, meeting with Templeton and Rivoche in Washington and in New York before inviting Templeton to Boise. With characteristic optimism, Mr. Simplot stated his objective as becoming "recognized as a producer and seller of mashed potato powder as quickly as possible" (PX 8, III-55).

Subject to Approval

While Templeton had stated to Simplot that considerations of past acquaintance had prompted him to offer Simplot the right of first refusal (PX 8, III-34, 35, 133), Simplot was well aware that there were other producers with whom Templeton was anxious to deal if he, Simplot, did not evince interest (PX 8, III-175).

Defendant now contends that Simplot never intended to make a binding commitment until he had the approval of his patent attorney. Yet he met Templeton and Rivoche in Washington merely a few weeks before the Boise negotiations. It is apparent that no mention was then made of the necessity of Mr. Beale's approval. If this was then an important element to Mr. Simplot, he kept it to himself while the parties were in Washington and only a few blocks from Mr. Beale's office.

The Boise Meeting of March 1949

The parties met in Boise in March 1949. Plaintiff was represented by its chief executive, Robert A. S. Templeton, who came to the meeting from London. Defendant was represented by its chief executive, J. R. Simplot, a man who on his own say-so makes big deals by parley and by phone and rarely writes a letter. These "general officers" came together to make a deal, not to open a series of diplomatic démarches by their underlings. It is plaintiff's position that they did reach an understanding and that it was the subsequent duty of the underlings to implement that deal, filling in the details as the developing situation made appropriate. It is this understanding that plaintiff asks this Court to order enforced.

Plaintiff came to Boise with a patent position from a dollar-poor post-War England needing an established and aggressive U. S. licensee since it was in no position to establish itself. Simplot seemed to Templeton to fill the bill.

Defendant invited Templeton to Boise with a plant and a past, but no product. A major competitor, R. T. French, was drawing rapidly away with a "patented" product that bid fair to leave defendant an "also-ran". Templeton offered the umbrella of a patent position, and, based

on previous battles in England, seemingly an "equalizer" to use against R. T. French. Templeton must have seemed mighty opportune to Simplot.

There can be small doubt that the parties were "ready"; ready to conclude a working alliance or relationship of licensor-licensee on terms necessarily broad and fluid to meet a developing situation. That is precisely what plaintiff believes the record establishes that they did and it is plaintiff's further position that it can now collect damages on its action filed in February 1961 for defendant's flagrant dishonor of its commitment.

B. What Was Understood

The Ruling Below

The Memorandum Opinion (99 R 73-74) states:

> "The parties reached an informal understanding in regard to developing the processes and the industry in this country, which was to be formalized later subject to the approval of their respective legal counsel."

Plaintiff agrees.

It is the gist of plaintiff's position in the Contract case that the "understanding" found by the trial judge to have been "reached" by "the parties" was reached orally* at Boise, Idaho on the occasion of Mr. Templeton's visit there in March 1949. This understanding created a relationship between the parties of contract as licensor-licensee, or at least of status as quasi-licensor-licensee, which continued to exist until

* The documents contained in Plaintiff's Exhibit 8 (PX 8, III-49-226) take this understanding out of any bar that might be raised by the Statute of Frau

abandoned by both sides only after plaintiff had completed the last perfection of the promised license rights by the acquisition of full title to the Faitelowitz patent in suit in mid-1956.

It is plaintiff's firm view that this understanding created an oral contract which the parties intended to effectuate and memorialize by the selection of appropriate terms in a formal agreement to be drafted by attorneys. If such is the intention of parties and for some reason the formal document is never signed, the oral agreement remains in full force, McCandless v. Schick, ____ Idaho ____, 380 P. 2d 893 (1963).

Where the Court below erred was in concluding that the understanding reached was not so definite as to be enforceable at law and was so conditioned on the subsequent actions of counsel as not to come into existence until "approval" had been obtained. The error is highlighted by consideration of the first paragraph of Finding VIII (00 R 46) reproduced below with the corrections indicated by lining out and bracketed insert which plaintiff contends are needed to correct the error:

"VIII.

"~~No~~ [An] express contract, ~~either~~ oral ~~or in writing,~~ was ever entered into between the parties. The record shows ~~only an~~ [a definite] ~~indefinite and~~ [, but] general understanding as to what their arrangements should be for the development and production of an instant mashed potato product for sale in the United States. Under the broad outline, plaintiff would grant defendant an exclusive license for the use of the Faitelowitz, Volpertas and Rivoche processes and would assist defendant in establishing its operation in exchange for a royalty

based on production. ~~Any~~ [A written memorial of this] agreement, however, was ~~at all times~~ [to be drawn up in specific terms] subject to the approval of ~~defendant's~~ [both party's] legal counsel, which, as events transpired, was never [executed] ~~received~~, and ~~thus~~ [this] prevented the parties from reaching a meeting of minds on the [precise] terms of ~~an~~ [a more formal] agreement."

The Law

It is the law that parties need only agree on the essentials of an agreement. The law will imply reasonable terms as necessary to fill out the bargain made.

Although the Court below did not mention specific unresolved terms as a reason for holding no enforceable contract to have been made, it did say that there was only "an indefinite and general understanding". Plaintiff believes that the language of this summary reveals the source of the lower Court's error. Its notion of the requisites of an enforceable contract is rooted in the precisions required by the law of bills, notes and checks, not in the practices of modern business, or the necessarily speculative world of patent licensing. Mantell v. International Plastic Harmonica Corp., 141 N.J. Eq. 565, 55 A. 2d 250, 173 A.L.R. 1185 (Ct. Err. & App. 1947).

If an agreement is sufficiently definite to collect the full intent of the parties, it is sufficiently definite for a court to enforce. People v. Interstate Engineering & Const. Co., 58 Idaho 457, 75 P. 2d 997 (1937).

This certainty of intent and terms however relates only to essential matters, Steen v. Rustad, 132 Mont. 96, 313 P. 2d 1014 (1957).

Absolute certainty relative to every detail of a contract is not always required, Taysom v. Taysom, 82 Idaho 58, 349 P. 2d 556 (1960).

Plaintiff finds the case at bar quite similar in "flavor" to Pennsylvania Co. v. Wilmington Trust Co., ____ Del. Ch. _____, 166 A. 2d 726 (1960), aff'd 172 A. 2d 63 (1961). There a short letter agreement stated the price for selling the stock of a mid-west Railroad to a subsidiary of the Pennsylvania Railroad Company. The agreement concluded with:

> "It is understood that all necessary details to implement this will be worked out by our respective attorneys."

At the formal closing the defendant refused to sign (another party had offered it 30% more). One ground urged was that the above term transformed the contract into a mere agreement to agree. In a well reasoned opinion, Chancellor Seitz denied this, stating that the essentials required by law had been agreed on.

The Obligations Imposed on Plaintiff By The Understanding

Plaintiff*, at the time an active commercial producer of granules under the F-V-R processes in England and the owner of, or holder of certain inchoate rights to become owner of, the United States patents and patent applications directed to the F-V-R processes, obligated itself to:

* In March 1949 Mr. Templeton represented a predecessor corporate entity, also British, but no issue arises from this fact and convenience is best served by referring to the Templeton interest as "plaintiff".

a) a license under all its U.S. patent rights;

b) an obligation actively to perfect and protect those rights;

c) refraining from licensing another (R. T. French excepted) nation-wide if defendant met certain conditions;

d) refraining from licensing another in Idaho;

e) inclusion in the license of future improvements;

f) a most-favored licensee position for defendant;

g) a guarantee against infringement of the patents of others;

h) an assured license for the entire life of any licensed patent;

i) an agreement to renegotiate any terms made unreasonable by the development of subsequent unrestrainable competition;

j) a positive undertaking to help develop the F-V-R processes in the plant of defendant, an interested potential producer 5000 miles away from plaintiff;

k) a full disclosure of plaintiff's accumulated know-how including permission freely to visit plaintiff's plants; and

l) a disclosure of all future developments.

The Obligations Imposed on Defendant By The Understanding

Defendant*, at the time an active vegetable and potato processor in England, without any successful product in the looming instant mashed potato field, and no patent rights to a commercially usable process in that field, obligated itself to:

a) accept a licensee position under plaintiff's United States patent position, vested and inchoate, to the F-V-R processes;

b) get into commercial production with reasonable promptness or pay a minimum royalty to maintain a nation-wide position of exclusive licensee or accept the lesser position of exclusivity only in Idaho;

c) pay a running royalty on licensed production; and

d) disclose and permit plaintiff to patent all improvements to the F-V-R processes it acquired, subject to inclusion of any resulting patents in the license.

Mutual Obligations Imposed By the Understanding

The parties were embarking on a cooperative venture in the establishment of a United States industry in the manufacture of a new

* In March 1949 Mr. Simplot represented a predecessor corporate entity, of Idaho not Nevada, but no issue arises from this fact, and convenience is best served by reference to the Simplot interests as "defendant".

product produced from a naturally-variable raw material under the umbrella of patent rights not yet fully ascertained, and to this end mutually obligated themselves:

a) to seek professional advice, particularly in the field of patent law, to enable them to draw up a detailed written memorial in futherance of the understanding they had reached and of its purposes;

b) to work together in good faith to promote the objects of the understanding and to keep each other fully informed of relevant developments, technical and economic; and

c) to renegotiate details of the arrangements between them to keep the understanding constantly reasonable in the light of current developments.

C. The Subsequent Conduct of the Parties and Its Legal Effect Confirms Existence of an Understanding

Introduction

This section presents proof that each of the terms plaintiff says were agreed upon by the parties at Boise, Idaho in March, 1949 were in fact so agreed upon. It will show that all the credible evidence adduced at trial supports the proposition of agreement on each term. In addition, the relevant law which indicates the sufficiency of the terms individually and collectively to form an enforceable understanding will be set forth.

The evidence which will be reviewed is largely that contained in Plaintiff's Exhibit 8, which the trial court found to be "the most credible evidence concerning the dealings and negotiations between the parties" (00 R 46). The landmark documents in Plaintiff's Exhibit 8 are:

Templeton's letter of March 8, 1949 (PX 8, III-42-58) sent from San Francisco back to Boise only a few days after the understanding had been reached and accompanying enclosures including a proposed preliminary memorial of the understanding, called by him in British fashion, "Heads of Agreement";

The Edmonds draft of March 28, 1949 (PX 8, III-59-71), a proposed formal memorial by plaintiff's patent counsel;

The Troxell letters of April 6, 1949 (PX 8, III-78-79) and August 9, 1949 (PX 8, III-118-121) relating to the position of defendant's patent counsel;

The so-called "annotated Heads", being a copy of the earlier "Heads of Agreement" annotated by Mr. Templeton with changes agreed upon at his December 1949 meeting in New York with Simplot (PX 8, III-138-141; 144-145 also included in the Appendix in this Brief with its letter of transmittal from plaintiff to defendant at pp. 18a-23a); and

The Troxell draft of December 16, 1949 (PX 8, III-148-165), executed by defendant.

Certain other documentary evidence, notably that evidencing part performance by plaintiff, such as Plaintiff's Exhibit 8 and Defendant's Exhibits 29 and 35, will also be reviewed.

1. A Nationwide License Under the F-V-R Patents

In the entire correspondence there is nothing that indicates plaintiff ever intended to grant less than a nationwide license under its F-V-R patent rights for the life of these patents. In the heads of agreement (PX 8, III-43), Mr. Templeton summed this up as "to grant licenses to manufacture and sell under the said letters patent".

2. An Obligation to Perfect Rights

All of the documents recite the pendency of the Rivoche application. It was self-evident that for its own self-interest plaintiff would prosecute this application to issue as it did.

The same thing applies to the matter of title to the Faitelowitz patent. When the defect became known to it, plaintiff began and ultimately finished the time consuming revesting procedure.

3. An Obligation to Grant No Further Licenses Should Simplot Pay A Minimum Royalty or Begin Production with Reasonable Promptness

The evidence supporting the parties' agreement on this term will be deferred to the section discussing Simplot's correlative duty to pay the minimum fee and begin reasonably prompt production if he wished to maintain the nationwide exclusive license.

4. Licensing of Future Improvements

Plaintiff was obligated to grant a license on all future im-

provements developed by either party and dominated by the basic F-V-R patents. Mr. Templeton expressed this in the Heads (PX 8, III-43):

> "* * * to grant licenses * * * on all improvements arising therefrom during the continuance of this agreement".

Mr. Edmonds in his draft (PX 8, III-62, Par. 3), stated that all improvements "shall forthwith become and thereafter be one of the licensed patents".

The Troxell draft as signed by Mr. Simplot (PX 8, III-151) contains identical language.

5. A Most Favored License Position

This quite common term is closely related to the following obligation of plaintiff to renegotiate should unrestrainable competition develop. It first appears explicitly in the Troxell draft (PX 8, III-156). Evidence that there was never any misunderstanding on this point is Mr. Troxell's earlier letter (PX 8, III-118) which does not specifically advert to this term.

6. A Guarantee Against Infringement of Others

As this was one of the prime items plaintiff had to offer, there was never any disagreement on this subject. On March 8, 1949, Mr. Templeton stated it simply as "to accept all liabilities which may arise in connection with infringement of other letters patent"(PX 8, III-44). It reappears in Edmonds' draft (PX 8, III-66), Troxell's letter (PX 8, III-120), and Troxell's draft (PX 8, III-157).

7. A License for the Life of the Licensed Patents

Mr. Templeton stated clearly that the license shall "continue

for the period of the longest patent" (PX 8, III-46). This occurs in paragraph 1 of the Edmonds draft (PX 8, III-61).

8. Provision to Renegotiate Terms Made Unreasonable by Subsequent Unrestrainable Competition

This term appears in substantially identical form in the Heads of Agreement (PX 8, III-45), Edmonds' draft (PX 8, III-66), Troxell's letter (PX 8, III-120), and Troxell's draft (PX 8, III-157).

The inclusion of this term is instructive because of its variance with defendant's apparent main contention that nothing ever became binding because there were negotiations yet to perform.

This Court may remember instructing the present defendant in N. L. R. B. v. J. R. Simplot Co., 322 F. 2d 170 (9 Cir. 1963) that it is the law that a contract or obligation to negotiate is binding.

9. A Positive Undertaking to Help Develop the F-V-R Processes

Mr. Templeton went immediately from the meeting with Simplot in Boise to nearby Caldwell where defendant had its potato processing plant. He spent the better part of three days (T. 1006) demonstrating his processes to and working with two Simplot employees, Ray W. Kueneman, then Production Manager, and Ray L. Dunlap, Food Technologist. The extent and scope of this laboratory work is well illustrated by Mr. Kueneman's testimony (T. 1006-1016), his notes (DX 29a-g), his subsequent letter to Mr. Troxell (DX 9), and Mr. Dunlap's notes (PX 10).

The evidence outlined shows beyond question that Mr. Templeton demonstrated in detail each of the processes covered by the three patents in suit and further went into some detail about the best procedures based on his experience in England.

As might be expected, this obligation of the plaintiff occurs unequivocally in all of the subsequent drafts and letters exchanged by the attorneys.

10. A full Disclosure of Plaintiff's Accumulated Know-How

This item, inherent in Mr. Templeton's demonstrations at the plant and advice on beginning granule production, is covered both by the demonstrations and all exchanged drafts of the attorneys. As a future letter shows (PX 8, III-217), F. M. S. was maintaining a pilot plant at Wisbech, England to demonstrate all procedures to present and prospective licensees.

11. Mutual Disclosure of All Future Developments

Both parties were under obligation to disclose all future developments to the other party. Plaintiff was to have the option of acquiring patent rights at its expense on any improvement and the license was to include any improvements so patented. This appears clearly in the various drafts (PX 8, III-45, 62, 119 and 152).

12. Defendant to Pay A Reasonable Running Royalty

The first point here is that the parties clearly agreed on a running royalty versus a flat yearly royalty, a single payment royalty or a percentage of profit royalty. All of the correspondence confirms this.

Plaintiff submits the parties intended from the very beginning a reasonable royalty under the circumstances. The specific inclusion of renegotiation provisions in all drafts show this (PX 8, III-45, 157). Such an agreement is enforceable.

The subsequent acts of the parties showed that the parties were in substantial accord on the amount of running royalty and when dif-

ferences arose they were easily settled.

In the Heads, Mr. Templeton set forth a sliding scale from 4% to 2% as his impression of a royalty appropriate to the terms agreed upon (PX 8, III-45). While defendant never characterized this impression as inaccurate, it was evidently unhappy with it. That summer, Mr. Simplot formally proposed a single 2-1/2% royalty rate (PX 8, III-119).

At a subsequent meeting in New York City, this was evidently agreed to as reasonable as of that time as witnessed by Templeton's "Annotated Heads" (PX 8, III-140) (Reproduced in the Appendix to this Brief, pp. 18a-21a) and Simplot's signed draft (PX 8, III-153).

Within a year the country was at war in Korea. Suddenly there were large government contracts to be filled. Since these quantitites were out of all line with those anticipated by the earlier agreements (1 million versus 10,000 tons) even further adjustments were in order. Mr. Templeton therefore reduced the rate paid by another licensee (PX 8, III-195). This shows that a reasonable running royalty was what was contemplated.

This alone is sufficiently definite. It is as definite as the standard established by Congress for determining damages for infringement of these patents.

> "...damages adequate to compensate for the infringement, but in no case less than a reasonable royalty..." 35 U.S.C. § 284.

Additionally, it is the law of Idaho and the United States generally, that an agreement such as this may be enforced when the price is agreed to be a reasonable one. This license is subject to the Idaho Uniform Sales Act which provides in pertinent part, Idaho Code 64-109(4):

> "Where the price is not determined in accordance with the foregoing provisions the buyer must pay a reasonable price. What is a reasonable price is a question of fact dependant on the circumstances of each case."

The Uniform Sales Act applies to "Goods" which Sec. 64-101 states "include all chattels personal other than things in action and money."

A sale of a patent right is obviously a chattel personal since that is any property not amounting to a fee in land, or any lesser interest in land (chattel real), U.S. v. Sischo, 270 Fed. 958, 961 (9 Cir. 1921), rev. other grounds 262 U.S. 165; Intermountain Realty Co. v. Allen, 60 Idaho 228, 90 P. 2d 704, 705 (1939). Patent rights are obviously neither things (choses) in action nor money.

Thus, the sale of a right of action for past infringement, while a chattel personal, would also be a chose in action and excluded from the Act. The sale however of all or any portion of the "right to exclude others from making using or selling" (35 U.S.C. § 154) is not the sale of a mere right of action but is the sale of "personal property" (35 U.S.C. § 261). See also 26 U.S.C. § 1235(a).

In a recent case which was apparently within the Illinois Uniform Sales Act, there was an agreement to furnish displays which defendant breached by "abandoning" the project before delivery. The court found the contract price stated to be "reasonable" sufficiently definite to award damages, Byrne v. Shell Oil Co., 295 F. 2d 797 (7 Cir. 1961).

A similar case was presented in McJunkin Corp. v. North Carolina National Gas Corp., 300 F. 2d 794 (4 Cir. 1961). There the defendant signed a purchase order and later, after the market for steel pipe fell, defendant "cancelled" and procured pipe elsewhere. The court held that the contract price "subject to governmental regulation and to manufacturers' price change" did not make the contract indefinite or subject to unilateral cancellation because still executory.

In construing its Uniform Sales Act the Vermont Supreme Court ruled that where no price was stated in a contract between a home owner and contractor who procured custom made kitchin cabinets, the defendant was obligated to pay reasonable price. H. W. Myers & Son. v. Feloupulos, 116 Vt. 364, 76 A. 2d 552 (1950)*.

The philosophy behind this statute has, over the years, been applied in many other areas to indefinite language which the parties at the time thought legally effective. In an option to buy real estate "terms to be agreed upon" meant reasonable terms, Morris v. Ballard, 16 F. 2d 175 (D. C. Cir. 1926). An agreement to reorganize a company as the parties' counsel "shall determine to be advisable" was, Judge Swan held, definite enough to support money damages for refusal to allow the reorganization, Gulbenkian v. Gulbenkian, 147 F. 2d 173 (2 Cir. 1945). A provision in an agreement to "employ on mutually satisfactory terms" meant "reasonable terms", Borg Warner Corp. v. Anchor Coupling Co., 16 Ill.

* The ultimate holding was that as defendant had signed no memorandum and as plaintiff had a third party, not himself make the custom cabinets, defendant was not liable.

2d 243, 156 N.E. 2d (1958), reh. den. 156 N.E. 2d 930. And see Hedges v. Hurd, 47 Wash. 2d 683, 289 P.2d. 706 (1955).

The need for flexibility of terms is particularly great in the field of patents and the courts have recognized this. This property, like the product of authors and composers, is impossible to evaluate ahead of time. Like a book or song it may take years of work and thousands of dollars to find out whether the property is of great value or worthless. It is often a matter of necessity that the parties pool their assets and talents with no other agreement than to treat each other fairly.

Furthermore, it is the public policy that a patentee's reward shall be based on facts occurring long after a prospective license is signed. The Patent Law speaks of recovering reasonable damages under the circumstances during the entire period of infringement. Furthermore, there is the policy that there is a fair payment for an invention. While this should be paid promptly upon initial profits, the running royalty should decrease if unexpected profitability or sales develop. The Royalty Adjustment Act (56 Stat. 1013, 65 Stat. 710) specifies the royalties in government contracts as "fair and just compensation" taking into account "the conditions of wartime production".

In Cold Metal Process Co. v. United Engineering, 107 F.2d 27 (3 Cir. 1949) the parties had interfering applications in the Patent Office. They entered a contract in which defendant was to pay royalties which were to appear "in a definitive agreement which the attorneys will draw up". Defendant never did draw up the contract and after years of equivocally living under it claimed it was void for uncertainty. Judge Buffington rejected this, noting that the contract had been partly performed and stated that defendant must pay according to the intention of the parties

which a master could readily determine.

Similarly in Droll v. McGrath, 199 F. 2d 187, 189 (D. C. Cir. 1952) Judge Clark in disposing of patent rights vested by the Alien Property Custodian stated:

> "Where... as here, there is no clear contractual provision for methods of fixing [royalties] both the owner and the licensee should participate in their determination."

He went on to point out this determination should be reasonable and provided court review if it were not.

In Eno v. Prime Mfg. Co., 314 Mass. 686, 50 N. E. 2d 401 (1943), plaintiff, had while in defendant's employ, invented a new method of attaching insoles to the upper of a shoe. Defendant's president developed a cooperating machine. The parties entered a letter agreement that they would obtain patents to be assigned to the defendant. The defendant undertook to develop the process and to "justly and properly compensate Mr. Eno". By its terms this contract was only to last for the trial period. The trial period expired and no new contract was signed. Defendant then claimed the contract was void for uncertainty and that it thus escaped liability for use of the invention. The court ruled otherwise:

> "A contract is not necessarily incomplete because one of its terms was to be exactly fixed at a future time. If, as here, one of the parties intended to pay, and the other to accept, reasonable compensation, and the former has continued

for years to enjoy the benefit. . . then although the parties have not agreed. . . on obligation to pay. . . could be implied." [Emphasis added]

The Court might more accurately have said that one of the parties "stated he intended to pay". Neither his then secret intent nor his later changed intent, although informative, are governing.

Cases would not come to Court if one party's stated intent did not change after entering into the bargain. Clearly, Mr. Simplot's intent fluctuated widely with time depending on the business situation. There was the early competition of R. T. French, the Korean War and large military contracts, the licenses of other producers, the issuance of the Rivoche patent, the Royalty Adjustment Proceedings, the return of the Faitelowitz patent and the periodic advice of his attorneys as to his legal position.

Mantell v. International Plastic Harmonica Corp., supra, presented this problem with a manufacturer and a distributor as the parties. The court found the contract concerned was a radically different harmonica* which "had not yet been perfected" and the "manufacturer's production capacity was altogether speculative and unknown". Plaintiff was appointed distributor for several mid-Atlantic states. Plaintiff undertook to buy all harmonicas produced, initially up to 30,000 per month. The reason for this large number apparently was that the machines which made the harmonicas covered

* Apparently covered by U.S. Letters Patent Nos. 2,373,129; 2,407,312; and 2,416,451.

by one of the patents) was a high speed plastic injection molding machine. Defendant had to have a guarantee of its output before it could afford to develop it.

Thus, both plaintiff and defendant were undertaking a considerable financial risk both as to the harmonica workability and saleability. The initial retail price was set but the contract stated the price between the parties only as the lowest offered any other distributor.

Apparently, no other distributors were appointed and defendant on their own account sold in plaintiff's territory. Defendant argued that, as the method for ascertaining prices had not "sprung into existence", the price remained unfixed and the contract was uncertain and therefore unenforceable.

The court found that the contract obligated both parties to perform before other distributors were appointed. It further stated that because of the "exigencies of the particular situation", the parties were deliberately silent as to price "and that as a matter of law" this was a stipulation for a reasonable price, citing incidentally the New Jersey Sec. 9 of the Uniform Sales Act.

Thus it can be seen that courts have been responsive to the predicament of parties seeking together to launch a new invention on the market and that the courts will not allow one party to use any necessarily indefinite language in the contract as an excuse to drop his partners when they have served his purpose and retain all the profits for himself.

13. The Minimum Royalty For the Exclusive License

The parties agreed that Simplot was to have a nation-wide exclusive license if he met certain reasonable production standards. Apparently Simplot was not sure he could or would get started even that

promptly. He therefore asked for and obtained an alternative arrangement. As Mr. Templeton later stated it:

> "It was your suggestion that if you did not realize even the moderate tonnages suggested even so you should have the right to retain the exclusive position for the whole of the United States by paying a sum of money in cash. I agreed and you practically fixed your own terms in this regard." [Emphasis added] (PX 8, III-134).

The terms Mr. Templeton set out as the agreement reached in the "Heads", and which were never contradicted by defendant, were (PX 8, III-45):

1st year - 1000 tons or $6,000 quarterly

2nd year - 2500 tons or $20,000 quarterly

3rd year - 5000 tons

5th year - 7500 tons

7th year - 10,000 tons

First year ends July 31, 1950.

This is the last mention of this term (excluding a comment on the ambiguity of the Edmonds draft) until the "Annotated Heads" following the meeting between the parties in New York City in December 1949.

There Mr. Templeton changed the figure $20,000 to $16,000 and made the notation "was I think agreed as amendment". At this point, the first quarterly payment was already overdue. The one substantive change in the entire contract Mr. Troxell made was to move the date for the initial quarterly payment of $1,500 from the already-passed November 1, 1949 to June 1, 1950. All corresponding limits and deadlines were likewise put off.

If there is one thing certain it is that Simplot never mentioned such a variance to Templeton in New York City. Such a proposal would provoke the direct question of whether he really wished to terminate the negotiations.

This is the one question Simplot evidently wished most to avoid answering. Twice, by letter from England, Templeton asked it (PX 8, III-135, 174). Twice his letter went unanswered.

However, when he met Templeton in person he stated "he wished to go ahead with the agreement and would speak to [his] legal counsellor to that effect immediately". (PX 8, III-171).

Plaintiff does not pretend to know whether he seriously intended to memorialize the agreement and was dissuaded or whether he was consciously buying time and attempting to get Templeton back to England without his dealing with others.

Whether he once again intended to proceed and changed his mind or whether his secret as opposed to his expressed intention was at all times to tie plaintiff up and pay nothing is irrelevant. In either case he was legally obligated on the contract.

For the following year he used the foil of "Beale's advice" (PX 8, III-199) to avoid signing a license while still speaking of "our deal on granular patent" (PX 8, III-201).

Plaintiff feels certain this court will find that no difference as to terms for the exclusive license kept the parties apart.

14. The Obligation to Deal in Good Faith

The central problem of this section is whether Mr. Templeton was reasonable in believing as assuredly he did believe, that Mr. Simplot was committing himself to an oral agreement on March 4, 1949 during their meeting at Boise.

On this point known business practices generally and Mr. Simplot's in particular became quite relevant.

Plaintiff is certain that frequent review of contract cases by the members of this Court will lead them to embrace Prof. Arthur L. Corbin's statement in 50 Yale Law J. (1950) at 829:

> "The writer's study of the cases...
> had fully convinced him as follows...
> (3) that from the very first the requirement of a signed writing has been at odds with the established habits of men, a habit of reliance upon the spoken word in increasing numbers of cases..."

Defendant's Business Practices

The average businessman's disregard of reliance on written contracts or communications of any sort pales into insignifiance beside the phobia on that subject of defendant's president Mr. J.R. Simplot. In Plaintiff's Exhibit 8, containing the entire correspondence between the parties from 1946 to 1959 there are exactly two letters written

by Simplot and one contract signed by him.

At the trial Simplot made what was perhaps the understatement of the entire proceedings when he said he "didn't write many letters" (T. 1384) and that this remained his practice.

Furthermore, Simplot admitted keeping no day to day notebook (T. 1383) while doing business over the phone and face to face (T. 1395). This Court might speculate profitably on his continued practice of not memorializing meetings (T. 1384) and his then and present feelings as to the accuracy of the Heads.

Nor is Mr. Simplot content to deal orally with only modest size proposals. This Court might find the opinion of Simplot v. Dallas Rupe & Son, 71 Nev. 111, 369 P. 2d 445 (1962) instructive concerning Mr. Simplot's business practices. The suit concerned a brokerage commission for a large scale refinancing of defendant's company. The original proposal was interest at 5 3/4%. The Court found that when he could not obtain a loan at that rate Mr. Simplot bound defendant by orally assenting to a $1.4 million loan at 6%.

Mr. Templeton had known Mr. Simplot personally as well as by reputation in the industry for four years prior to 1949. He had met him and been his guest in Boise in 1945 (T. 998, PX 8, III-10-11)*. He had further met him in late 1948 in New York City (PX 8, III-34) as well as

* Mr. Simplot couldn't remember within 2 years and 2000 miles where he first met Mr. Templeton (T. 1384). Plaintiff suggests this be weighted when evaluating the crystal clarity of his recollection concerning the terms of his oral understanding in 1949.

more recently in both Washington and New York before going to Boise.

Plaintiff urges that Mr. Templeton had adequate opportunity to observe for himself the undeniable truth. Mr. Simplot was a businessman who operated through oral agreements and it was he who made the oral agreements.

The only document which comes near to being a contemporaneous document is the "Heads" sent from San Francisco. The tone of the letter accompanying it (8 March 1949) purports to convey an agreement already reached and Mr. Templeton at trial reaffirmed his intent in sending it (T. 892).

Courts have for many years given both evidentiary and legal significance to the silence of one party to oral negotiations when receiving the written understanding of the other party. In Dickey v. Hurd, 33 F. 2d 415 (1 Cir. 1929) plaintiff repeatedly wrote that he understood the offer was that he promise to pay by a certain date. When he in fact did accept at the deadline by promising payment the defendant announced the offer required him to pay by the deadline. The Court held for the plaintiff saying if defendant's story were true he had a duty to speak out.

This duty to speak if one disagrees with a "confirmation" of a contract which one receives has further been lately recognized by the spreading Uniform Commercial Code, Section 2-201.

Mr. Templeton's testimony at trial was both confirming and specific:

> "My recollection is that at the termination of the meeting, or immediately after it, Simplot said, the words are as near as I can get: ' I'll go along', and in the course of walking down the street I said

'I will put that all down on paper and send it to you.'

* * * *

"Mr. Hawley: And you indicated to Mr. Simplot at that time and place you would reduce your proposal or offer of a licensing agreement to writing?

"A. I would put it stronger. I would say I understood to put the terms we had agreed in writing." (T. 893).

Mr. Simplot, who had previously denied an offer was made, denied he accepted it:

"Yes, I am sure we naturally--he was trying to sell his offer--the whole ball of wax--his patents and those that were pending and that he had--he was trying to sell them and if they were what he claimed, we were certainly interested.

* * * *

"...Yes, I think he [Mr. Troxell]--we at that time were using--we had Mr. Beale and Jones in Washington, D. C., and I am sure that he mentioned that he didn't have the knowledge of patents and that he would refer it to them...Refer it to them on the basis of the patents...There wasn't anything definite." (T. 1386).

To the extent that this vague testimony could be taken as convincing evidence that no agreement had been reached, it would be cast in doubt by the later and wholly incredible statements of both Simplot and Troxell that neither knew of the subsequent Caldwell demonstrations

(T. 1387, 1316). To admit they knew of the demonstrations would be to admit the demonstrations were conducted pursuant to an understanding.

To deny their knowledge of these demonstrations was to affirm the incredible position that Messrs. Kueneman and Dunlap* would have done what they did with no authorization whatsoever.

The obligation to pay for confidentially disclosed know-how is perfectly well settled and of too long standing not to be known by responsible employees in industry. This court has repeatedly set out the elements. Engelhard Industries Inc. v. Research Instrument Corp., 324 F. 2d 347 (9 Cir. 1963); Kierulff v. Metropolitan Stevedore Co., 315 F. 2d 839 (9 Cir. 1963); Osborn v. Boeing Airplane Co., 309 F. 2d 99 (9 Cir. 1962).

The proposition is perfectly simple. If there was no contractual arrangement, these two employees were subjecting their company to serious potential liability and merely compounding the sin by keeping such candid and complete notes of the demonstration. If, however, there already was a contractual obligation, then there was and is no liability for the receipt of the know-how.

Plaintiff urges that the alternatives supply their own answer which is that Messrs. Kueneman and Dunlap knew it was safe and proper to conduct the demonstrations and take copious notes. They could only have been authorized by Simplot or Troxell.

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* Their immediate supervisor, Mr. Leon Jones, was not in Boise at the time (23 April 1949).

Troxell also knew the demonstrations were authorized whether he first learned of them March 4 or March 16. On March 16, Mr. Kueneman wrote Mr. Troxell thoroughly outlining the demonstrations (PX 9).

If Mr. Kueneman had acted improperly in confidentially accepting trade secrets or had he taken solely Mr. Templeton's word that an agreement had been reached, would not Mr. Troxell, the Executive Vice-President and an attorney, have reproved him and instructed him to cease?

On April 23, 1949, Mr. Leon Jones wrote Mr. Templeton about the progress of experimental work at the Caldwell plant. Was Mr. Jones then taking orders from Templeton about authorizing experimental work in his plant or was he doing it pursuant to explicit instructions received from Boise?

On June 1, 1949, Mr. Jones again wrote Mr. Templeton describing further work with the two large Procter and Schwartz driers and the steps being taken to produce the initial seed. On June 21, Mr. Dunlap, who was evidently in charge of the project, wrote Mr. Templeton a short letter on the occasion of his return to Boise after an extended and unexpected absence. The note indicates the project was still active and really only awaiting Mr. Dunlap's return.

Simplot's story then is that Mr. Templeton after three prior meetings with him (New York City, October 1948; Washington, D. C. and New York City early 1949) came to Boise for further discussions and in several hours covered nmore than he would like to offer a license under his patents (which is precisely what his letter of the previous November 18 (PX 8, III-34) to Simplot said).

Continuing with the tale according to Mr. Simplot, Mr. Templeton left him after making no definite proposal, receiving only tentative interest, somehow wound up at the Caldwell plant and performed unauthorized experiments and gave unsolicited advice for two days. He then went to San Francisco and wrote a lengthy letter, agreement and report to Mr. Simplot representing that concrete terms had been both discussed and agreed to and Mr. Simplot never even read the letter. Presumably, Mr. Simplot never even knew the terms that Mr. Templeton was "proposing" until the following August when he met him again in Boise (9 August 1949). If this Court finds this tale* supported by any substantial portion of the evidence it should of course affirm the judgment. If, however, this court agrees with the plaintiff that every item of evidence and every act or inaction by the defendant indicates that a specific proposal had been made and had been accepted by Mr. Simplot, then this court should reverse the judgment.

A factually similar case arose before the Supreme Court of Missouri some years ago. In Priest v. Oehler, 328 Mo. 590, 41 S.W. 2d 783 (1931) plaintiff as here contended an oral agreement on each

* This is not the first court before which the recollections of Mr. Simplot when testifying about past oral negotiations has been presented. See J. R. Simplot Co. v. Dallas Rupe & Son, Inc., supra at 369 P. 2d 450; Archer v. J. R. Simplot Co., 289 F. 2d 596 (10 Cir. 1961); and United States v. J. R. Simplot, 192 F. Supp. 734 (D. Utah 1961). It might be noted that Judge Taylor carefully avoided the issue by resting his Opinion solely on the documentary evidence (PX 8).

essential point had been reached which was intended to be memorialized as here in a formal written document. The opinion continues at p. 787:

> "Both the Oehlers, on the other hand, testified very emphatically that Oehler reserved his final approval of the terms until he could see them in writing. This was the one thing which they at the time of trial could distinctly recall; practically everything else that had transpired at the conference on March 17 had faded from their memories. This taxes credulity somewhat."

15. The Role the Understanding Gave the Attorneys

It is perfectly clear from the record that the understanding of March 1949 gave both plaintiff's and defendant's patent attorneys a role to play in the formation and drafting of the formal memorial of the license agreement that had been reached.

The questions presented are: Was the District Court in error in concluding that the role Mr. Beale was intended to play prevented an enforceable agreement from existing until he gave his approval? We say it was. Did Mr. Beale's actual participation after the agreement had been reached so taint its binding character as to abort it? We say it did not.

Although the Judge below was undoubtedly influenced by the fact that the oral negotiations were intended to be reduced to writing, plaintiff believes it was in evaluating Mr. Beale's role that the Judge committed the principal error. This caused the subsequent errors of assuming the terms were still open and the parties intended to agree in the future. In the Memorandum Opinion (99 R 88) and in the Findings (00 R 45) the Judge states the agreement was subject to the approval of defendant's Patent

Attorney. It is clear from reading these that the Judge assumed because the parties used these words, then as a matter of law, no agreement had been reached.

Had this term not been present then plaintiff submits the Judge would undoubtedly have found an enforceable agreement.

Due to the conflicting interpretation of the legal significance of this term of the oral agreement, plaintiff will analyze the question by setting out the four possible roles Mr. Beale could have been intended to play and why this court should find his role was intended to and was in fact limited to the last two roles which left the contract unimpaired.

Clearly there was a role for Mr. Beale in the statement by Mr. Templeton of the understanding and plaintiff asserts it is this role to which defendant had agreed.

A Conditional Contract

One type of proposal which could have been entered into between the parties is set out in 1 Corbin on Contracts, p. 357:

> "Thus where A offers to buy a patent at a named price, on condition that X shall express approval of the patent, and B promises to sell it at that price and subject to the same condition, they have made a valid and irrevokable contract."

Note that in the above case the power of X was expressly limited to approving or not approving. Also note that there is no limit placed on the reasons for approval or not and indeed no reason would need be given.

While such an agreement would have been, as Mr. Corbin points out, a valid contract, there is not a scintilla of evidence that this

was the term of the agreement. It is expressly at variance with Mr. Templeton's views of the role.

> "[The agreement] can be put into legal phraseology by lawyers in due course." (8 March 1949, PX 8, III-42).

> "I asked [Mr. Edmonds] to submit a draft... subject to any legal aspects he wished to raise and similarly to offer your Advisor the same courtesy." (31 March 1949, PX 8, III-72).

> "The questions you raise are all of the kind which Mr. Simplot and I agreed to leave to be thrashed out between our attorneys." (11 April 1949, PX 8, III-80).

Neither was this type of conditional approval the kind Mr. Troxell had in mind when he wrote Mr. Edmonds on April 6, 1949. If it were he might have said:

> "Beale and Jones have failed to approve of the license. By terms of the agreement our obligations are terminated."

Instead he chose to state that Beale and Jones recommended that J. R. Simplot Co. not enter any license agreement (PX 8, III-78). Clearly the final decision was with Mr. Simplot, not Mr. Beale.

An Illusory Condition

The preceding section logically suggests another sort of

condition. Simplot could have said, and it appeared to be his remembrance at trial that he had said in essence:

> "I'll agree I'm interested and further I'll sign what I please after I consult further and receive a formal license from your attorney."

If such had been the case there would have been no agreement, no condition and Mr. Beale's advice would have been utterly irrelevant to this case. In his opinion the Judge clearly dismissed such a preposterous suggestion first by stating that a "broad general understanding" had been reached.

Marketable Title

It is perfectly clear from the correspondence that Mr. Beale was intended to play a role in the drafting of the formal contract which might appropriately be classified under this heading. This is perhaps best expressed in Mr. Templeton's letter of May 12, 1949 (PX 8, III-94) when he states that a clear condition of the agreement is that the lawyers not show there is something fundamentally wrong.

This type of condition has for many years been recognized and given effect in two areas which together make them peculiarly analagous and appropriate to the present problem. First is the well known provision that a vendor of realty will furnish marketable title. It is now settled that an agreement to provide title satisfactory to the vendee or his attorney is a similarly enforceable variation of this provision.

The other area where a similar provision is commonly used and universally respected is in construction contracts. It is usual to provide that periodic payments shall be conditioned on an architect's or

an engineer's approval. A patent attorney reviewing a patent license must evaluate both engineering and legal criteria to advise his client.

Plaintiff's position here is that defendant is not relieved from performance of the contract because Mr. Beale never in fact gave any final good faith opinion on the license, which was both communicated to the plaintiff and acted on by the defendant. In substantiating this position, plaintiff will separate the apparent advice of Mr. Beale into two areas:

a) the advice on scope and validity; and

b) the advice on the Faitelowitz patent's vesting by the Alien Property Custodian.

Preliminarily plaintiff would like to say that had Mr. Beale in the spring of 1949 said merely "Don't sign" and had defendant written Mr. Templeton that on advice of counsel they had decided to terminate and withdraw, this suit would never have been filed. Whether such action would have been a breach or not would have been academic.

Mr. Templeton would have been clearly free to deal with others and would likewise have been free to pursue his patent rights should the defendant ever begin granule production.

An agreement to accept performance or title satisfactory to oneself or one's attorney is an agreement to in fact exercise a good faith or reasonable judgment. It is supported by consideration and not therefore illusory. Mattei v. Hopper, 51 Cal. 2d 119, 330 P. 2d 625 (1958); Wright v. Suydam, 72 Wash. 587, 131 Pac. 239 (1913); Pacific Telephone v. Davenport, 236 Fed. 877 (9 Cir. 1916), Restatement, Contracts § 265 (1932).

It is inherently necessary and the law fully supports the proposition that failure to give the good faith opinion excuses plaintiff from the condition*. In Nelson Bennet Co. v. Twin Falls Land & Water Co., 14 Idaho 5, 93 Pac. 789 (1908) the Idaho Supreme Court stated this implied exception at 796:

> "Where it has been shown that the engineer ...declined to make honest estimates or decisions, or refused to make inquiries, or inform himself of the facts in dispute...the courts have furnished relief."

A contract to show merchantable title to the satisfaction of a vendee's attorney does not mean the vendor has to suit the whim of counsel or has to meet arbitrary or capricious demands. Cities Service v. Viering, 404 Ill. 538, 89 N.E. 2d 392 (1949). Of necessity, therefore, a vendee is not bound by an attorney who has no firm opinion. Neither is a contractual condition of approval an invitation to induce a breach.

Before reviewing the evidence, plaintiff wishes to point out that this section is not meant to demean the advice which Mr. Beale actually gave the defendant. As it has never been produced, plaintiff has no idea what it actually was. Neither does it have any idea whether the

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* Restatement Contracts § 303.

"Where a certificate* * * is a condition* * * the condition is excused if [the person]* * *

b) refused to give the certificate because of collusion with the promisor* * *
d) fails to make a proper examination of the work
e) fails to exercise an honest judgment"

advice as given was consistently or ever followed by the defendant.

Plaintiff must of necessity limit itself to the advice of record. This advice was twice "followed" with a great show of reluctance (April 1949, August 1951, PX 8, III-78-79; T. 1540) and once rather pointedly ignored (December 1949, PX 8, III-149). It is not likely therefore that this was ever the real opinion that Mr. Beale submitted to the defendant.

Furthermore plaintiff views Mr. Beale's role, not as a disinterested attorney, but as an interested bargaining agent as the evidence will show. As such, he was not subject to either the obligations or immunities of an impartial attorney.

a. Scope and Validity

Mr. Beale was, by the terms of the agreement given the right to review the license, the two patents to Faitelowitz and Volpertas and the application of Rivoche to see if there was anything "fundamentally wrong".

Mr. Beale never rendered a formal opinion of disapproval of the license and indeed stated no opinion whatsoever in the three letters of his in the correspondence book (PX 8, III). Furthermore, of the many objections he had to the patents not one is based on a ground sufficiently substantial as shown to be included in the defendant's final arguments in the Patent Case No. 18899.

Preliminarily, it should be remarked that the grounds the Judge relied on for holding against the patents were not asserted by Mr. Beale because during 1949 and 1950 they did not exist and it would have been impossible to do so. Plaintiff here asserts that Judge Taylor's grounds were clearly wrong and therefore could afford defendant no excuse. The

matter is here covered, however, to merely forestall defendant from now asserting the judgment appealed from approves or ratifies Mr. Beale's acts in 1949. The Judge found Faitelowitz and Volpertas not infringed by defendant's commercial operation. During this earlier period defendant had no commercial operation and by its own admission (PX 9, 10, III) had, aside from what Mr. Templeton told them, no idea how to produce granules. Therefore, any opinion ventured by Mr. Beale as to infringement (or scope) would be necessarily speculative and therefore, as a matter of law, capricious and arbitrary.

The Judge found Rivoche invalid. The claims which he found invalid (No. 16 and 17 in suit) were not at the time Mr. Beale reviewed the case even in the application*. Again no opinion could be given regarding them.

Mr. Beale objected to the Faitelowitz patent because it was a "narrow improvement" patent (PX 8, III-78). He thought that Faitelowitz was anticipated some 20 years by "Renner" (PX 8, III-110). This would be a fundamental objection if substantiated. Since Mr. Beale did not have this patent to show to Mr. Edmonds even some two months after rendering his "opinion" (PX 8, III-78), we cannot now know what it disclosed if, indeed, it existed. Moreover, when answering the complaint some 10 years later, Mr. Beale was still unable to find the anticipating "Renner" or indeed, any pertinent prior art to Faitelowitz' two stage drying. Perhaps Mr. Beale had

* These claims were first submitted to the Patent Office on June 28, 1950 (PX 3, II-85).

reference to Remmers (DX 17, I-80). This patentee (1918) produced a "dry thread-like product" which is formed by, in order, skinning the potato under water, cooking, ricing and while still hot, drying by hot air. This completely fails to disclose the method, two stage drying, and understandably does not even assert it has a similar end product.

Of those few patents having to do with potatoes,all showed significantly different methods to produce granules and all were in varying degrees failures. The other patents concerning drying of starch, taro, beets, pumpkins, fruits could only be relevant to show no equipment or skill was lacking to produce Faitelowitz' invention. In short, the prior art convincingly shows, and plaintiff is indebted to defendant for collecting it, that the industry had worked hard and failed signally in discovering what Faitelowitz showed was so easy. Certainly there is nothing "fundamentally wrong" here. (DX 17, I).

Mr. Beale also purported to find the Volpertas add-back invention a mere narrow improvement patent (PX 8, III-78). Likewise, he was completely unable to substantiate this at trial 12 years later. Perhaps he seriously thought, as he asserted (PX 8, III-109), that Volpertas was entitled to only the 1942 date when it specifically stated it related back to an application filed in 1937. This ignoring of plain matters of record is not the finding of "fundamental errors", the parties had or the law has in mind.

With regard to Rivoche, Mr. Beale first opined that he had no opinion because it was still an application (PX 8, III-109) and concluded with the legal argument that defendant avoided infringement through some (as yet) unstated intricacies of the Boykin Act (PX 8, III-224). Here again, there is nothing "fundamentally wrong".

Any remaining doubts Mr. Beale had with respect to the scope and validity were apparently cleared up by Mr. Templeton in his visit during August 1949. Mr. Templeton stated (PX 8, III-130) that there was general agreement except for two terms of the license. If Mr. Beale ever disagreed with this interpretation he gave no indication of it either before or after the suit was filed except perhaps colaterally while cross-examining Mr. Templeton (T. 771).

Turning to the license, Mr. Beale evidently assumed Simplot would not have been interested had he known of the outstanding Bunimovitch license (PX 8, III-118). This can only be explained by the fact that he assumed Simplot (or Troxell) had never seen the patent because it clearly states on its face, "assignor of seventy five per cent to Marcos Bunimovitch" (PX 1, I-6). Beale went on to make the legally erroneous observation that one could not grant an exclusive license (a promise to grant no more) when there is an outstanding interest.

At a later stage, Mr. Beale took an interest in the royalty rate, apparently asserting that 1-1/2% was less objectionable than 3% (PX 8, III-131).

These were the objections of Mr. Beale which are contained in the record. Although numerous, there is not a single one of any substance. If indeed there was any point which defendant during 1949 could have held up as "fundamentally wrong" it consciously chose not to do so while it wore Mr. Templeton down without saying yea or nay.

b. <u>The Alien Property Interest</u>

There was one item Mr. Beale turned up which, if not a "fundamental" defect was undoubtedly a defect which would have prevented

a "marketable title". This defect was the vesting* by and continued ownership of the Alien Property Custodian (A. P. C.) of the Faitelowitz patent.

The A. P. C. interest was stated by Mr. Edmonds (PX 8, III-110) to be unknown to him at the time he drafted the agreement**. It was also undoubtedly unknown to Mr. Templeton until Mr. Troxell's letter arrived.

Had defendant chosen to rely unequivocally on this as a ground for terminating their performance plaintiff would not then or now complain of the fact. But if one thing is clear from the correspondence, it is that defendant did not desire to use this defect to terminate the negotiations.

The ownership of the patent was potentially destructive to the licensing scheme for several reasons. First, the legislation designed to return erroneously vested property was discretionary with the A. P. C., 50 U. S. C. App. § 32, 60 Stat. 50. Next, it erected as a

* The Vesting was pursuant to the Trading with the Enemy Act of 1917 as amended including the First War Powers Act, 1941. (50 U. S. C. App. § 1, 40 Stat. 411, 55 Stat. 839). Those Acts gave the Executive power to vest property belonging to residents of enemy occupied countries. As of October 23, 1943 (DX 16), the records of the Patent Office showed the owners of the patent Rivoche and Volpertas residents of France and Bunimovitch a resident of Belgium.

** There was and is no indication on the copies of the patent furnished by the Patent Office that the patent had been vested. The sole indications would be in the Federal Register at the time of vesting, October 20, 1943, and in the title records of the Patent Office.

condition that plaintiff prove that Dr. Rivoche while resident in France during World War II did not have enemy citizenship, that Volpertas had in fact arrived in the U.S. before December 7, 1941 and that Marcos Bunimovitch had emigrated to Venezuela before that date. This plaintiff eventually did (DX 16, I-41-44).

Despite the above disabling contingencies, Mr. Simplot, for reasons apparently valid at the time, elected to proceed. He proposed during a meeting with Mr. Templeton in August that his obligation to perform retroactively be conditioned upon the divesting (PX 8, III-118), which was, as pointed out, only his already acquired right.

By these acts the defendant has shown it did not desire to terminate performance based on the above "defect in title" but desired to proceed, making only such alterations as the situation required. For this reason, defendant should not be allowed by this Court to retroactively claim benefit of a condition they thought their benefit to waive at the time.

c) Drafting the Agreement

As a conclusion to this section plaintiff wishes to mention the prime reason both parties wished to enlist patent counsel on both sides to draft the agreements. There are widely used covenants and terms in patent licenses which are almost unique to that field. There are unique provisions for notice and recording, unique provisions for taxation of royalties both to the grantor and grantee and very stringent if ill-defined penalties for licenses which contribute to "patent misuse'br violations of the anti-trust laws.

Mr. Troxell testified at trial he had told Mr. Templeton at the March meeting that he had never had occasion to draw a patent license,

that he didn't know what was customary and he would need assistance of patent counsel.

This is in accordance with the undisputed testimony of all parties at trial but does not mean that the patent attorney could remake an understanding already reached.

D. The Statute of Limitations and Laches

Plaintiff's "Contract Case" Briefly Reviewed

Plaintiff's "Contract Case" was presented to the trial court as supported by alternative legal theories. The evidence adduced at trial supports the first alternative approach and it is urged on this appeal, without abandonment of the second and subordinate alternative.

Essentially, the first alternative is that an enforceable business understanding was reached in March of 1949 between duly authorized representatives of plaintiff and defendant in Idaho pursuant to which defendant was to go forward in due course with the production of dehydrated mash potato powder, in accordance with certain inventions, the rights to which were effectively controlled by plaintiff in the United States and in the light of certain business and technical know-how accumulated by plaintiff outside of the United States to be communicated to defendant, for all of which defendant was to pay. This alternative urges the existence of an enforceable business understanding.

For its second and subordinate alternative, appellant submits that whether or not the technicalities of classical concepts of contract law are fully met, certainly the record supports the conclusion that unless the courts intervene, appellee will have been unjustly enriched at appellant's expense.

The District Court thoroughly considered these alternative positions advanced by appellant. The Court's conclusion was that a general business understanding had been reached, but that an enforceable contract with all the technical niceties of offer and acceptance and meeting of minds had not been concluded by the parties and, therefore, relief had to be denied appellant. Realizing, however, that modern commercial

situations have added flexibility to ancient concepts of contract law, the court below ruled further that if the facts before it could be fairly said to evidence an enforceable business understanding nonetheless appellant must be denied relief because its claim was barred by the Idaho Statute of Limitations.

Passing to appellant's alternative theory of unjust enrichment, the trial court in its Memorandum Opinion indicated that this complaint was not without substantial merit. It concluded that appellee had indeed received something of value from appellant and, inferentially, that appellee could reasonably be expected to pay for value received. Once again, however, the court below concluded that the Statute of Limitations acted as an insurmountable bar to appellant's claim for relief. In these conclusions the District Court was in error.

The Statute of Limitations and the Commercial Realities of Templeton v. Simplot

The United States Supreme Court in Chase Securities Corp. v. Donaldson, 325 U.S. 304, 314 (1945) summarized the nature and object of Statutes of Limitations in language that bears full repetition:

> "[Statutes of limitation] represent expedients, rather than principles. They are practical and pragmatic devices to spare the courts from litigation of stale claims, and the citizen from being put to his defense after memories have faded, witnesses have died or disappeared, and evidence has been lost. . . They are by definition arbitrary, and their operation does not discriminate between the just and unjust claim, or

> the avoidable and unavoidable delay. They have come into the law not through the judicial process but through legislation. They represent a public policy about the privilege to litigate. Their shelter has never been regarded as what now is called a 'fundamental' right or what used to be called a 'natural' right of the individual. . . [T]he history of pleas of limitation shows them to be good only by legislative grace and to be subject to a relatively large degree of legislative control."

This statement is a clear distillation of human experience. It is a recognition that ultimate justice is better served if served promptly and that the possibility of inequitable results is greater as time passes, memories fade, and evidence is lost. The Legislature of the State of Idaho has decreed that actions to enforce oral agreements or to recover for unjust enrichment must be brought within four years of the time that these actions accrue. Though it would seem that this inflexible rule of law conflicts with the corresponding human experience of businessmen negotiating for commercial advantage, it is nonetheless a rule of law with which appellant is prepared to live. Analysis of the Statute, however, reveals that it possesses an inherent flexibility such that its application will not require businessmen to sue first and negotiate later or to assume a breach of contract rather than that those with whom they deal are prepared to negotiate in good faith. That flexibility is in determining when the Statute begins to run.

The whole history of the negotiations in this case distinguishes it, from the point of view of the application of the Statute of Limitations,

from those commercial contracts which contain provisions rigidly and inexorably triggering the Statutes of Limitation. Certainly the agreement here is not like a note possessing a specified schedule of payments. Nor is it like an insurance policy which contains its own limitations on the right of the insurance company to question the representations made to induce the issuance of the policy. Nowhere in the negotiations leading to the understanding here involved, nor in that understanding itself, is there specified that last act upon that last day which will begin the running of the Statute of Limitations. For that reason, in order to determine when the Statute began to run on appellant's claim for damages, resort must be had to the reasonable expectations of reasonable businessmen. This the Trial Court failed to do and this failure led it to error.

The Nature of the Dealings Between the Parties

The details of the negotiations leading to the business understanding between appellant and appellee, the nature of that understanding, and the actions of the parties taken in light thereof have already been documented. However, in order to determine whether or not appellant's claim is barred by the Statute of Limitations, a closer look must be taken at the performances expected of the parties pursuant to that understanding.

The essence of the agreement reached was that appellee as licensee under the patents owned by appellant and as the recipient of experience and know-how acquired by appellant through its own commercial activities would acquire a preferred position in an industry which has now grown to enormous proportions. Any of the details of performance this agreement was to require were left, in March 1949, to be worked out in conference between legal representatives of both appellant and appellee,

but nonetheless an agreement had been reached. The fact that certain details remained unsettled does not vitiate the force of the agreement reached. Rather than incurring the name of "destroyer of bargains", the law of contract permits "businessmen to record the most important agreements in crude and summary fashion". See Outlet Embroidery Co. v. Derwend Mills, 254 N.Y. 179, 183, 172 N.E. 462, 463 (1930); A.M. Webb & Co. v. Robert P. Miller Co., 157 F. 2d 865 (3 Cir. 1946). As was observed by the New Jersey Court of Errors and Appeal in 1947 in Mantell v. International Plastic Harmonica Corp., 141 N.J. Eq. 564, 55 A. 2d 250 (Ct. Err. & App. 1947), "An exclusive nation or region-wide arrangement for dealing in patent matters is a comparatively recent device to meet modern needs in the marketing and distribution of goods". In such cases it is not usually practical to fix prices and other detailed terms of the contract "and the rules of certainty and definiteness which govern the ordinary contract of sale have no application".

While certain of the specific details of the obligations undertaken by appellee were left for further negotiation and adjustment in the light of developing facts and circumstances, legal, technical, and economic, no such latitude was available to, or, indeed, needed by, appellant. Templeton was to supply Simplot with the best protected position he could assemble under the F-V-R patents, together with his know-how and other commercial experience. The eventual "price" Simplot was to pay for this necessarily and by agreement would be determined by the success of Templeton in securing to Simplot the practical effect of the protection promised.

Soon after the understanding was reached in March of 1949, appellee's counsel wrote to appellant's counsel reporting on the opinion

of Simplot's patent advisor as to the advisability of entering into a license under the patents here involved, in the following words (PX 8, III-78):

> "It was their opinion that the Volpertas and Faitelowitz patents are not basic patents, and that if not entirely invalid, they are so limited by prior art as to be of extremely narrow scope. It was also their opinion that the Rivoche patent application now pending cannot mature into a valid basic patent at this date and if eventually patented, it will be a patent of very narrow scope or invalid. The opinion further stated that Farmers Marketing and Supply Company, Ltd. cannot at present grant any license under the Faitelowitz patent since title thereto remains vested in the alien property custodian and that it will be necessary to (a) institute devestment proceedings and then (b) acquire the 75% Bunomovitch interest in that patent before an exclusive license thereon could be granted.
>
> * * *
>
> "It is apparent that further negotiations between the parties will be necessary."

Certainly it is apparent from this letter that the effectiveness of the patent rights involved was that area which "required further negotiation". It is equally apparent that the lack of legal title to the Faitelowitz patent could not be debated, but only cured by subsequent

action. With this single fact lies the crux of the defense of the Statute of Limitations and it is here that the trial court's error resides.

The Faitelowitz Patent and the Simplot License

The Faitelowitz patent is the Book of Genesis in the art of instant mash potato powder. In it for the first time were disclosed the phenomenon of two-stage drying and cell separation. Without it the large and profitable industry in which appellee now shares would not have been developed. As the trial court aptly characterized the Faitelowitz invention:

> "The first substantial contribution to the art of processing an instant mash potato powder was made by Arnold Faitelowitz in Paris, France, in the 1930s."

In the technical patent sense, Faitelowitz dominates all of the succeeding contributions that have been made, including those of Volpertas and Rivoche. As a result, a license under Volpertas and Rivoche without a corresponding license under Faitelowitz would have been worthless to Simplot if someone other than Templeton controlled the right to use the Faitelowitz disclosure. Since Simplot was bargaining for a protected position in an infant industry, his attorneys' complaint as to the uncertain status of title to the Faitelowitz patent was a serious one. Large license payments were not warranted unless Simplot could be assured that competition would not spring up and reduce his license in value or that he would not be forced to pay additional license fees to someone other than Templeton in order to make use of the Volpertas and Rivoche disclosures.

Although appellant was certain that he would eventually perfect his title to the Faitelowitz grant, it recognized and understood Simplot's hesitancy to commit himself to an inexorably fixed expense in payment for an all-too-unfixed bundle of rights. On the other hand, Simplot wisely did not want to go forward at the risk of infringement and injunction as he would have had to do had he abandoned his licensee position. In order to resolve these uncertainties, Templeton undertook successfully the unexpectedly long, arduous and expensive task of perfecting his title to the Faitelowitz patent.

The Faitelowitz Patent and the Alien Property Custodian

Certain emergency war powers were given to the President under the Trading with the Enemy Act, 50 U. S. C. App. § § 1-40. Some of these powers were thereafter delegated to the Alien Property Custodian by Executive Order 9095 dated March 11, 1942. In part, the Executive Order reads as follows:

> "The Alien Property Custodian is authorized * * * to take such action as he deems necessary in the national interest including * * * the power to * * * vest * * * any patent * * * or right thereto in which any foreign country or national thereof has any interest whatsoever and * * * any interest of any nature whatsoever held therein by any foreign country or national thereof."

While the power to appropriate property was not limited to property belonging to enemy aliens, Saragin v. Wright Aeronautical Corp., 54 F. Supp. 244 (S. D. N. Y. 1944), aff'd. 162 F. 2d 960 (2 Cir.

1947), it was obvously designed for that purpose. It was not the practice of the A. P. C. to confiscate the property of friendly aliens, Becker Steel Co. of America v. Cummings, 296 U. S. 74 (1935). A state of war, however, precludes the possibility of an adequate investigation into the background of every suspected enemy alien. Errors are occasionally made as they were in the case at bar.

It becomes apparent, from the order vesting the Faitelowitz patent (DX 16, tab 3, I-33) that at the time of vesting the A. P. C. was proceeding under clear mistakes of fact. The vesting order makes clear that the Government believed Bunimovitch on October 30, 1943 to be a resident and national of Belgium; Volpert to be a resident and national of France; and Rivoche to be a resident and national of France. The facts were that Bunimovitch had returned to Venezuela, of which he had been a citizen since 1925; Volpert was a national of Lithuania and resident in New York; and Rivoche, though resident in France, was a national of Latvia. These mistakes of fact, however unfortunate from appellant's point of view, had no effect on the A. P. C. 's title, see, e. g., In re Sielcken's Estate, 167 Misc.327, 3 N. Y. S. 2d 793 (Surr. Ct. 1938); Clark v. Tibbets, 167 F. 2d 397 (2 Cir. 1948), but they did assure appellant of the virtual certainty of reacquiring title after completion of the necessary procedures.

As the Act specified, 50 U. S. C. App. § 12, the A. P. C. is vested with all the powers of a common-law trustee, and though perhaps not answerable for breach of trust to the owner of the beneficial interest, the Act is explicit in its division of rights. There has been recognition of this division of rights by the courts, for example in Ruoff v. C. I. R., 277 F. 2d 222 (3 Cir. 1960) which indicated that complete title in the

property in question vests in the government only after completion of an unsuccessful divestment proceeding brought by a claimant. Moreover, it should be noted that the A. P. C. 's title, until divested, is complete even to the right to recover for infringement prior to seizure, Saragin v. Wright Aeronautical Corp., supra.

There can be no doubt that, in view of the vesting, a suit by appellant for infringement of Faitelowitz would have been met, prior to divestment, with a complete defense of lack of legal title. It is equally clear that the arrangement Templeton made as the beneficial owner of Faitelowitz with appellee was in no way compromised as valid and valuable consideration by the fact of vesting. What that fact did was to make the value of the arrangement to Simplot speculative of assessment in dollars and cents.

Recognizing that hostilities eventually end and that administrative agencies under emergency conditions are prone to error, the Act provides its own exclusive remedial provisions. Section 9(a) of the Act provides for suit to recover the property vested. The spirit of the law as it is particularly relevant to this proceeding was noted by the Supreme Court in Becker Steel Co. of America v. Cummings, supra:

> "Section 7 of the Trading with the Enemy Act conferred on the A. P. C. authority summarily to seize property upon his determination that it was enemy owned, and such seizure was lawful even though the determination was erroneous. Central Union Trust Co. v. Gawan, 254 U. S. 554; Stoehr v. Wallace, 255 U. S. 239; Commercial Trust Co. v. Miller, 262 U. S. 51. But

> in thus authorizing the seizure of property as a war measure, Congress did not attempt the confiscation of the property of citizens or alien friends. See Henkels v. Sutherland, 296 U.S. 301. Instead, by § 9(a), it gave to the non-enemy owner the right to maintain a suit for the recovery or the seized property or its proceeds, and at the same time by the all-inclusive language of § 7(c) it denied to him any other remedy." 296 U.S. at 76.

It is thus clearly evident (1) that from October 20, 1943 to May 11, 1956 the United States Government held legal title to the Faitelowitz patent; (2) that appellant from 1949 to 1956 was the beneficial owner (through assignments from Rivoche and Volpert) of at least 25% of that patent; (3) that the fact of vesting would have defeated any infringement suit brought by Templeton prior to May 11, 1956; and (4) that as beneficial owner Templeton could validly deal with appellee about the patent in March 1949.

When Could Templeton First Have Effectually Sued on the Understanding

The basic rule is that a cause accrues when a breach occurs. Galumbeck v. Suburban Park Stores, 214 F. 2d 660 (4 Cir. 1954), Barlow v. Collins, 166 C.A. 2d 274, 333 P. 2d 64 (1958). This breach can occur only after a party has a duty of immediate performance. Camenisch v. Allen, 158 Pa. Super 174, 44 A. 2d 309 (1945), Restatement of Contracts § 312. It is plaintiff's position here that obtaining good title to the Faitelowitz patent was a condition precedent to creating in defendant an immediate and inescapable duty to perform.

Any of defendant's acts inconsistent with its status as licensee before 1956 when plaintiff secured full legal title were therefore in the nature only of anticipatory breaches. The law is clear that where there is an anticipatory breach, the injured party has the option to hold fast to the contract, Compania Engraw v. Schenley Distillers, 181 F. 2d 876 (9 Cir. 1950). When the injured party so elects to rely on performance, the Statute begins to run only when performance is due. Main v. Hopkins, 229 S. W. 2d 820 (Tex. Civ. App. 1950), Restatement of Contracts § 322.

From what has been said previously it is clear that appellee would have had, prior to May 1956, not only a defense to any action for patent infringement instituted by appellant, but also to an action on the agreement in that until that date Templeton had not completed his performance and the value thereof could not be ascertained. It is hornbook law that to state a claim for breach of contract which will successfully withstand a motion to dismiss, it is necessary for a plaintiff to allege that he has performed all of the provisions of the contract by him to be performed.

The spirit of the agreement between appellant and appellee as initially memorialized in the "Heads of Agreement" was clearly that Templeton would do all in his power to guarantee to appellee the commercial advantage of an exclusive license and would undertake to frustrate the emergence of unlicensed competitors. Certainty of reaching this objective would require reacquisition of the legal title which at the time the agreement was made was held by the A. P. C. Thus, though a valuable commercial agreement which met in law all of the requirements of a contract was made in 1949 between appellant and appellee, its very nature

precluded suit for enforcement until certain procedural steps were completed. It certainly cannot be a proposition of law that a contract is invalid because at the time of its making it was subject to certain procedural infirmities when those infirmities were contemplated by the contracting parties. The status of the Faitelowitz patent was made known to appellee prior to the making of the contract and the only logical conclusion is that the commercial value of the agreement to the appellee outweighed future contingent difficulties. To conclude otherwise would be to sanction appellee's insistence on all the benefits of a license under and the entire profit on the operation of a process, the rights to which are clearly in appellant, without the necessity of paying any tribute whatsoever.

As one court has put it the cause accrues and the Statute begins to run when the party may rightfully sue. Muer v. Shick, 188 Okl. 331, 108 P. 2d 544 (1940). Implicit in this axiom is the added stipulation that the statute begins to run when an action could have been successfully maintained. That is to say that the Statute of Limitations begins to run, absent some statutory provisions to the contrary, only when a remedy is actually available for the wrong alleged to have been committed. There is no better statement of this than that in Penns Creek Municipal Authority v. Maryland Casualty Co., 120 F. Supp. 549 (M. D. Pa. 1954), where the Court said at page 550:

> "The general rule is well stated in 54 C. J. S., Limitations of Actions, § 109, as follows: 'In general a cause or right of action accrues, so as to start the running of the statute of limitations, as soon as the right to institute and maintain a suit arises, or when there is a demand capable of

present enforcement, or when there is a remedy available; and whenever one person may sue another a cause of action has accrued and the statute of limitations begins to run, but not until that time. So, whether at law or in equity, the cause of action arises when, and only when, the aggrieved person has the right to apply to the proper tribunal for relief. The statute does not attach to a claim for which there is no right of action, and does not run against a right for which there is no corresponding remedy or for which judgment cannot be obtained. The true test, therefore, to determine when a cause of action has accrued is to ascertain the time when plaintiff could first have maintained his action to a successful result, regardless of the time when actual damage results; the fact that he might previously have brought a premature or groundless action is immaterial. ***'".

As the facts of this case developed, defendant's duty to pay royalties became based on a dual contingency. The first contingency occurred in 1951 when it began granule production. The second contingency was the perfection by plaintiff of its "licensing rights" in the Faitelowitz patent. The latter occurred in 1956, within four years of filing this suit.

Estoppel

Another reason exists for denying to defendant the refuge of the Statute of Limitation. A series of acts of defendant, which the trial court implied singly or collectively might amount to a renunciation of the

understanding, were, plaintiff submits, done as a part of the performance thereof and rather raise an estoppel to plead the Statute in consequence.

Thus, following his appointment as plaintiff's agent in the United States, Mr. William Scott promptly contacted defendant to ascertain its interest (PX 8, III-178). He received a negative written reply from Mr. Jones (PX 8, III-179), but an evidently quite different oral reply from Mr. Simplot (PX 8, III-182-181). During the next year defendant's patent attorney Mr. Beale continued his meetings with plaintiff's attorney (PX 8, III-197). Defendant consciously sought to keep alive the illusion that all of Mr. Beale's stated objections were made in good faith and that Mr. Simplot would sign a license as soon as Mr. Beale approved (PX 8, III-199-200). Mr. Simplot met with Mr. Scott both in Caldwell (PX 8, III-198) and in Minnesota in 1951 to further discuss the license (T. 1537). While there he had a lengthy discussion with his patent attorney Mr. Beale who again dissuaded him from signing a license agreement (T. 1540). In the spring of 1952 there was another meeting in Boise between several producers, including defendant, and Messrs. Templeton and Scott. These negotiations included not only relations between the parties, but the progress of the Royalty Adjustment proceedings then pending between Templeton and the U. S. Army (T. 1542-44). Even more important is the fact that <u>after</u> plaintiff perfected its title to the Faitelowitz patent, Mr. Beale resumed his meetings (PX 8, III-224) with plaintiff's attorneys to negotiate a license (PX 8, III-223).

These facts do not indicate a breach of the understanding as the trial judge felt. Rather they indicate a continued course of conduct with the apparent purpose of carrying out the obligation of that

understanding to negotiate an express written license.

The relevant legal principles are both plain and of long standing. One may not hold out the hope of settlement to induce delay, and then plead this delay as a defense to the action when brought. Thompson v. Phenix Ins. Co., 136 U.S. 287, 300 (1890).

To cite but two other examples, one may not continually, when requested to pay, promise to execute a note for land and then plead the Statute. Douglas v. Douglas, 199 Okl. 519, 188 P.2d 221 (1947). Here this court should find defendant's continuous negotiations evidence that it in fact recognized an obligation and promised to perform (e.g. "Our deal on granulars", 8 August 1951, PX 8, III-201).

One may not state that the present controversy will be settled by the outcome of another case and after delay plead the Statute. Adams v. Cal. Mut. Building & Loan Ass'n., 18 C.A. 2d 487, 116 P.2d 75 (1941). The Court should here find that defendant was merely using the proceedings before the Royalty Adjustment Board and Mr. Beale's "advice" as foils to buy time.

For these reasons the Court should find defendant by its own conduct from 1951 to 1956 estopped to plead the Statute of Limitations.

Unjust Enrichment

All that has been said about the application of the Statute of Limitations to plaintiff's first alternative, that the understanding of March 1949 was one enforceable at law, is equally applicable to plaintiff's second alternative, that defendant had received benefits for which it should have, but has not, paid.

The full measure of the value of those benefits was unascertainable until the matter of the Faitelowitz title had been determined. The dalliance leading to estoppel is the same. The period, four years, of the appli-

II. The "Patent Case"

A. The Faitelowitz Patent

1. The Issue Presented

Claim 1* of the Faitelowitz (PX 1, I-6-7) recites [typographically broken down for convenience of analysis]:

"1. A method of reducing potatoes and other starch-containing vegetables to the form of a dry powder in which the starch is preserved in its initial form which comprises

[a] cooking the vegetables at a temperature which must not substantially exceed 100°C.,

[b] cutting the cooked vegetables into small pieces,

[c] partially drying the pieces, at a temperature which also must not substantially exceed 100°C. until they have lost at the most about 60% by weight of their initial water-content,

[d] reducing the partially dried pieces to the form of a moist powder and

[e] further drying the moist powder, at a temperature which must not greatly exceed 80°C., until it has a water-content of approximately 10-15% by weight."

The trial judge did not question the validity of this claim; the sole basis on which he refused plaintiff's demand for damages for its infringement was his view that what transpires in defendant's plant between

* The other claims in suit were claims 2 and 4-8, all expressly dependent upon claim 1.

the cooking and final drying of the potato cells which had already been separated into a moist powder is not enforceably claimed by the two steps:

> [c] partially drying the pieces, at a temperature which also must not substantially exceed 100°C. until they have lost at the most about 60% by weight of their initial water-content,
>
> [d] reducing the partially dried pieces to the form of a moist powder* * *.

In defendant's plant peeled cooked potato pieces were taken, either with or without preliminary mashing, to mixers (T. 82-84, 391). These mixers, illustrated at (2) in PX 6, II-182, combined the cooked potato and added-back previously processed granules to form a moist powder of about 35% moisture.

One model of these mixers is shown in two photographs (DX 47(b), III-177, 178). This mixer, located in defendant's Caldwell, Idaho pilot plant, was used at an inter-partes demonstration during the trial. The first picture, where the mixer is empty, clearly shows defendant's expert, Kueneman, pointing out the heavy rotating shaft with protruding prongs; the second shows the cooked potato and dry granules as they are mixing and combining to form a moist powder.

2. A Reviewable Error

As Judge Taylor noted in his opinion, the parties are in substantial agreement on what defendant's process is (99 R 74). In plaintiff's view, the Judge's error to be corrected here derives, not from any factual finding, but from incorrectly assessing the legal effect to be given the Faitelowitz claims.

The trial judge initially misreads a direction to dry at less than a certain temperature as a direction to dry by heat (99 R 104). He goes on to state that defendant's process is "contrary to" rather than an improvement upon the Faitelowitz two-stage drying process (99 R 104). He observes incorrectly that the two-stage drying process is an "unpatentable principle" (99 R 105).

Lastly, he correctly observes that Faitelowitz' actual method was crude and commercially impractical (99 R 105). Alexander Graham Bell's telephone when he patented it was also crude and commercially impractical. Telephone Cases, 126 U.S. 1, 535 (1887). Both Fàitelowitz' and Bell's inventions depended on the improvement of others to enable them to become the foundations of great industries. The Judge's error here was in concluding that one escaped the legal consequences of infringement of the underlying generic invention by using the specific improvement of another (99 R 77).

His errors are clearly reviewable since they are based on assumed legal standards, not experience with human conduct, which was stated to be a ground for review in Lundgren v. Freeman, supra. That decision reaffirmed this Court's earlier opinion in Kwikset Locks v. Hillgren, 210 F. 2d 483 (9 Cir. 1954), that where , as here, the record clearly indicates the nature of the various inventions and the alleged infringing process, the question of infringement is one reveiwable by this Court.

3. TheTemperature Statement in Limitation "[c]"

The Judge correctly observed that the intial drying stage, limitation [c], was all important (99 R 76). His error lay in not giving effect to the inventive novelty impolicit in that very statement. That novelty was the direction to carry that stage of drying only about half

way down and produce a moist powder to be then further dried (T. 208) not the statement that this initial drying should be done "at a temperature which also must not substantially exceed 100°C." This statement was a correct one of a precaution needed to avoid scorching or "case-hardening" the potato (T. 208). It is a precaution which defendant has invariably observed.

The trial judge apparently assumed that the presence of a temperature statement in limitation [c] required him to hold that Faitelowitz claim 1 could be infringed only by initial drying carried out by heating. His opinion is unclear as to whether he considered this interpretation a necessary one as a matter of language or as imposed by the file wrapper history or for the purpose of avoiding prior art. This unclarity appears from his comments both about principles and about equivalents (99 R 76-77).

It is plaintiff's position that his interpretation is wrong and a fortiori not a necessary one on these or any grounds.

If carrying out the initial drying by a heating method was the true novelty in the Faitelowitz method of producing granules; if others had proposed other methods of initial drying and these methods had failed; then the Judge could have been correct in assuming Faitelowitz' invention was limited to initial drying by heat. The evidence is overwhelming to the contrary. All methods of drying without the intermediate production of a moist powder had been tried and had failed. It was the suggestion that the drying be two-stage drying with the initial drying by any method which worked the revolution in the industry.

The text of limitation [c] will not support the trial judge's view. It merely requires "partially drying the pieces, at a temperature

which also must not substantially exceed 100°C." By any canon of documentary interpretation this leaves open the manner of the drying so long as (1) it is only partial and (2) the temperature of the product does not "substantially exceed 100°C." As such it is merely a direction not to scorch the potato and it is germane to ask why it is in the claim at all.

There is no easy answer to this question. As this case illustrates, every statement in a claim invites misconstruction. However, elimination of accurate statements is not without an equal danger. There is the troublesome doctrine that one should not claim inoperative species or methods. If an applicant discloses that initial drying over a certain temperature will produce a worthless product, he should in effect disclaim this region. This Faitelowitz did.

There is no dispute that Faitelowitz, in his Paris laboratory, actually used hot air initial drying. His direction to cut the cooked potatoes "into small pieces" indicates this. And this was the common method of drying in the one-stage production of such products as dehydrated potato dice. However, his claim makes no requirement of hot air or any other heating step. A strong blast of cold dry air would work as well, if possibly slower and more expensive. It is common knowledge that the housewife's wash drys in the winter wind though frozen. However much more expensive such a method would be, it would also be a literal infringement of claim 1 which requires only that the potato be dried at less than 100-105"C.

The problem, if any, here is not really one of the "Doctrine of Equivalents" as the Judge assumed (99 R 77) since the language of the claim is literally met by any process which partially dries at less than 100°C. Defendant has admitted that it performs its initial drying at well

below 100°C. or 212°F. (T. 83).

The only conceivable problem here is whether a patentee who fails to disclose any particular type of drying as requisite for a partial drying step and claims drying generally for the step is entitled to coverage of all types of drying, or, mor particularly, of the particular type of drying defendant actually uses in its partial drying step. There is no evidence that the moist powder which is the distinguishing intermediate product of the Faitelowitz invention cannot be produced by a partial drying of any sort that does not overheat the product. On such sort of partial drying is the add-back method. Its amazing suitability for performing Faitelowitz' partial drying step was the discovery, not of Faitelowitz himself, but of his co-worker, Volpertas.

A brief review of the elementary physics of the different sorts of drying may be helpful.

Where drying is accomplished by evaporation, as in hot air or in the winter wind, the water vapor passing from the material to be dried into the atmosphere is carried away from the air immediately surrounding the material by the draft leaving unsaturated air ready to receive more water vapor as it evolves (T. 1182). In still air, the surrounding atmosphere soon reaches saturation and can receive no more water vapor, at which point drying stops. Hence, the first requirement is removal of the water vapor.

Heat enters the mechanism only as a means of speeding up the rate of evolution of the water vapor and in determining how much water vapor is required to saturate the surrounding air. Hot air will hold more water vapor than the same quantity of cold air. Nevertheless, at all temperatures here involved, saturation is easily reached and when reached drying stops until a draft removes the saturated air (T. 1182).

Drying of a particular mass of material can also be accomplished without any evaporation taking place by transfer of a part of the moisture in that mass to a different and drier mass with which it is brought in contact. The homely bath towel and blotting paper both act in this manner. So does add-back.

One of the difficulties of drying pieces of material by evaporation is that it is a surface phenomenon and the moisture in the interior of the piece has to come to the surface before it can pass into the surrounding atmosphere (T. 207). Cutting a big piece into little pieces, of course, increases the surface and hence facilitates evaporation. Blotting, too, is a surface phenomenon, but the mixing that accompanies the add-back causes the surface cells to become separated as damp powder as soon as they reach the requisite partial dryness and so new wet surface to be blotted is constantly being exposed (PX 11, Tab 54, III-304).

As defendant has shown in its efforts to invalidate the Volpertas patent, the adding back of an already dehydrated portion of the same or different vegetable as an aid in dehydrating a fresh lot was known for a number of years before Faitelowitz and Volpertas both.

For example, one Carl Steffen obtained a French patent (DX 17, I-163-170) on a dehydrated potato animal fodder. He performed an initial drying step by add-back to avoid agglomeration. The added back portion was already dried potato, dry draff from breweries, or the residue of sugar beets.

> "...by this method the cut up potato which formerly was very moist and glutinous, has become at the end of a few minutes. . . a material which. . . can be exposed to higher temperatures." (p. 165)

Thus, there is no reason in law or fact why the use of add-back as the selected method of partial drying does not literally meet a process step stated simply as "partially drying the pieces at a temperature which also must not substantially exceed 100°C." Its use is an infringement of Faitelowitz' claim 1.

4. Was Faitelowitz' "Principle" Unpatentable

a. Admission Against Interest

The District Judge unequivocally found that defendant "uses the Faitelowitz two-stage drying principle" (99 R 74). He immediately proceeded to the error of misreading the Faitelowitz patent to conclude that it is "drying by heat in the first stage" which "Faitelowitz teaches". We have already exposed this error fully. We underline it by quoting from Faitelowitz himself:

> "Any suitable drying apparatus may be employed for partially drying the pieces of potato* * *." (PX 1, I-7, col. 1, line 22).

The issue now before us is the legal one, whether the Faitelowitz two-stage drying process requiring the production of the intermediate product, a moist powder, is within the class of "unpatentable principles", as the courts have defined them. This issue is largely one of semantics. It apparently stems from the fact that Mr. Templeton testified that everyone in the industry including defendant uses the Faitelowitz "principle", but not his "method" (T. 204), because all use the add-back method which assuredly Faitelowitz does not disclose.

Defendant below repeatedly asserted that this testimony was an admission against interest. That the trial judge, without explicitly

agreeing, may have been influenced by this argument is shown by his inclusion of a quotation from the Templeton testimony to this effect in his Opinion (99 R 77).

Had Templeton been an American patent attorney instead of an English food processor, this "admission" argument might have some validity. As it was, he used common English words in a perfectly apparent context.

By way of example, he might equally have said to a person who was familiar with neither the telephone nor the radio that a radio uses the Bell principle of voice transmission, but not the Bell method, wires. Clearly the radio infringes on (uses) Bell's invention of turning audible sound into electrical impulses and later turning the impulses back into audible sound.

If plaintiff's case rested equally on playing word games, it might choose to assert that, as defendant used the principle, it infringed, citing Del Francia v. Stanthony Corp., 278 F. 2d 745 (9 Cir. 1960). There Circuit Judge Jertberg held the defendant not guilty "because the principle of appellant's device has not been appropriated by the appellee". Clearly, he meant that there was a substantial difference in mode of operation between the patent's and defendant's charcoal broilers.

b. Patenting a Result

The opinion of this Court in the Del Francia case shows that the assumed term of art "patenting a principle" has a variable content. There appearsto be two main contexts in which the term is used. The Faitelowitz patent and its infringement are outside either area.

First, there is a clear rule that one cannot patent a mere

result. It was in this sense that this Court in the case cited by Judge Taylor (99 R 77) ruled as to Marx' process patent:

> "***he did not, and could not, patent a principle." Kemart Corp. v. Printing Arts, 201 F. 2d 624 (9 Cir. 1953).

There the patentee had discovered a specific method of making half tone photographic negatives by using ultra-violet light. The defendant also made half tone negatives, but by using quite a different type of light. Judge Bone correctly observed:

> "The use of 'ultra-violet light only' as claimed is, by appellee's own assertions, the heart of the alleged invention of Marx. The problem is whether these claims can be said to include a process using visible light only to expose the negative in the dot-eliminating exposure. We think they cannot.
>
> "* * *A finding of infringement here would be tantamount to a finding that two dissimilar machines, which operate in an entirely different way, are equivalents because the same kind of energy used to operate one is used to power the switch of the other. The ultimate results, i.e., the finished negatives of the two processes are alike, but similarity of result is not sufficient to show infringement." 201 F. 2d 624.

From the very earliest the law has been clear that merely to establish that a defendant reaches a patentee's result is not enough to establish an infringement. Chief Justice Taney stated in Carver v.

Hyde, 16 Pet. 513, 519 (U.S., 1842):

> "Now the end to be accomplished is not the subject of a patent. The invention consists in a new and useful means of obtaining it."

What then is the end result or function of the Faitelowitz invention that would not be patentable per se? The end to be accomplished is a readily reconstitutable mashed potato product.

What Faitelowitz did invent was a distinctive method or process for producing such a potato product. The characteristic of this process was defined by him in limitations [c] and [d] of his claim 1. The key feature is the production of a moist powder as an intermediate product.

It is this process, a clearly patentable process, which defendant literally uses.

c. Patenting a Law of Nature

A second sense in which the statement against patenting principles is used is to express the prohibition against patenting a law of nature.

A law of nature is an observation about natural phenomena. In popular terminology, it becomes a law, not when it is first observed, but when someone first logically describes what he sees as a relationship between cause and effect.

> "A principle, in the abstract, is a fundamental truth; an original cause; a motive; these cannot be patented, as no one can claim in either of them an exclusive right." Le Roy v. Tatham, 14 How. 156, 175 (U.S. 1852).

Mr. Justice Douglas further developed this thought when he stated:

> "* * *[L]aws of nature [are] free to all men and reserved exclusively to none. * * * If there is to be invention from such a discovery, it must come from the application of the law of nature to a new and useful end." Funk Bros. Seed Co. v. Kalo Co., 333 U.S. 127, 130 (1947).

At times, of course, a useful application of a newly-disclosed "law of nature" may be obvious or merely a rephrasing of the statement of the "law". Funk Bros., supra, was held to be such a case. This case is different in that, once the discovery is stated, the useful application of it claimed by Faitelowitz is still not obvious.

A relatively minor "law of nature" or observation of a natural phenomenon is contained in the third paragraph of the Faitelowitz patent (PX 1, I-6, col. 1, line 18).

> "It has been determined by microscopical comparison of the structure of the starch contained in a dish prepared from a known potato or like powder with that of the starch contained in dishes prepared from fresh vegetables that in the first case the greater part of the starch is in the hydrated gelatinous form (i.e. the walls of the starch cells or granules have been ruptured) whereas the opposite is true in the other case. The differences in taste and consistency are directly due to these facts."

Faitelowitz was not even the first to discover this minor law. Cooke (PX 2, I-208) stated in 1905:

> "The maintenance of the intact condition of the cell walls of the majority of the cells of the potato is substantially necessary for the present process. If on the other hand, the cell walls are crushed or injured in the preliminary treatment the addition of water to the dried product will produce a mucilaginous starchy mass, which is entirely inedible."

If Faitelowitz had stopped at this point and merely described and claimed as his invention a dehydrated potato which tasted better because it had fewer broken cells, he would have truly had attempted to "patent a principle". But he did not do this. Instead, he disclosed and claimed for the first time a new and useful means of obtaining its benefits, namely, the method of two-stage drying with the production of the intermediate product, a moist powder.

In the recent case of National Lead Co. v. Western Lead Products Company, 324 F. 2d 539 (9 Cir. 1963), such a situation was presented to this Court. The plaintiff contended that its patentee was the first to discover that

(a) in the product of a certain known process two crystalline forms of a lead oxide component are present

(b) the temperature affected the relative proportion of the forms

(c) the temperature controlled the particle size

(d) a certain temperature range would produce a predetermined product.

Judge Jertberg correctly observed that these discoveries without more would be unpatentable discovery and quoted with approval from a Seventh Circuit opinion at 541:

> "It is one thing of course to discover a scientific fact, a law existing in nature, and quite another to invent a means of making that discovery useful."

In the National Lead case, this Court found the useful process disclosed and claimed by the patentee to be obvious from the unpatentable "scientific fact" itself. The trial judge did not find that the Faitelowitz two-stage drying and intermediate moist powder product were obvious, but, instead, stated that:

> "The first substantial contribution to the act of processing an instant mashed potato powder was made by Arnold Faitelowitz in Paris, France, in the 1930's." (99 R 98).

What Faitelowitz did after stating the scientific fact was to go on to describe and claim a specifically new process to take advantage of that scientific fact or the "principle" or "law of nature".

In doing so he conformed precisely with the dictates laid down by Mr. Justice Grier in his concurring opinion in O'Reilly v. Morse, 15 How. 62, 132 (U.S. 1853):

> "The mere discovery of a new element, or law, or principle of nature, without any valuable application of it to the arts, is not the subject of a patent. But he who takes this new element or power, as yet useless, from the laboratory of the philosopher, and makes it the servant of man; who applies it to the perfecting of a new and useful art, or to the improvement of one already known is the benefactor to whom the patent law tenders its protection."

The Supreme Court there held the Morse Telegraph patent valid and infringed. However, the Eighth Claim for

> "* * *the use of electric current* * *for printing letters at any distance* * *"

about which both the Justice and the Court were concerned and both characterized as an attempt to patent a "law of nature" was actually unpatentable but as its words show, was so because it was an attempt to patent a result. This completes the circuit and ends this subject.

5. Avoiding Infringement by Using an Improvement

The District Court did not say that defendant avoided infringement of Faitelowitz because it was using the improvements of Volpertas and Rivoche. What he did say was that add-back was "contrary to" the method employed by Faitelowitz (99 R 77), without specifying the method

employed by Faitelowitz.

If the trial judge meant that the add-back process which defendant uses is "contrary to" a two-stage drying process producing a moist powder intermediate product, he is factually clearly erroneous. Add-back, a particular method of initial drying, is merely one of the possible initial drying processes.

The trial judge may have meant that add-back was "contrary to", that is, did not involve, the hot air initial drying actually used by Faitelowitz in his experiments. Here he would have been factually correct, but the observation would have no legal relevance. Actually, the Faitelowitz patent nowhere mentions "hot air". It only calls for performing the initial drying stage by any suitable means so long as the temperature of 100°C. is not exceeded and an intermediate moist powder product is produced.

The evidence is clear that drying a conventionally-cooked potato mass by exposing it to hot dry air and drying it by admixing it with already-dried particles were both known. Within the purpose of the general Faitelowitz directions to partially dry, both are embraced and neither is "contrary to" the other.

Plaintiff contends that literal infringement in this respect of the claimed recitation of the partial drying step exists. It does not need and therefore does not seek to have this Court, through legal construction, give the words other than their plain English meaning. However, plaintiff would remind this Court of the rule that the liberality of construction to which a patent is entitled is in proportion to the importance of the invention, Westinghouse v. Boyden, 170 U.S. 537, 561 (1879).

Obviously, Faitelowitz' invention does not rank in importance to mankind with the telephone or the airplane or the sulfa drugs. This does

not disentitle it to consideration under the "pioneer" rule. The touchstone is the importance of an invention to its own industry. As the Supreme Court said in Hobbs v. Beach, 180 U.S. 383, 399 (1900), when referring to the patent there in suit:

> "* * *while the patent is not a great one, we are not speaking too highly of it in calling it a pioneer in its limited field* * *".

To the American G.I. who went through World War II (but not Korea) on the old dehydrated potato this invention was indeed a pioneer. To the Idaho potato farmer for whom this invention opened vast new commercial markets, this invention was indeed a pioneer. To the potato processors all over the country who built great industries on this invention, it was also a pioneer.

6. Summary

For the reasons already stated, this Court should set aside Findings XV, XVI, and XVII and Conclusions II and III and reverse the Judgment of non-infringement of the Faitelowitz patent on the ground that there is literal infringement of steps [c]* and [d] of its claim 1.

Judge Taylor did not specifically rule on whether defendant's process came within the other recited steps of the claim.

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* The contention was raised below that as defendant's potatoes were at only about 35% moisture when they left the ribbon mixers, its process somehow avoided the 60% recitation in limitation[c]. This is bad logic as it confuses the sequential position of the recited moisture content in the process as a whole. Steps [c] and [d] say together that the potatoes must be reduced to a moist powder at no less than about 50% moisture, not that they must be removed from a ribbon mixer at no less than 50% moisture. If defendant's potatoes were still unreduced to moist powder at moistures as low as even 49%, we feel confident defendant would have chosen to enlighten the trial court on this point.

Plaintiff, however, urges that the undisputed evidence will allow this court affirmatively to find infringement of every other step. Referring to the claim text (p. 80 , supra), there is undisputed literal infringement of steps [a] and [e].

The only other step is [b]:

"cutting the cooked vegetables into small pieces".

Faitelowitz' obvious purpose of cutting into small pieces was to hasten evaporation (T. 208). The defendant also chose not to dry the entire uncut potato. Rather, it thoroughly disintegrated the cooked potato pieces while partially drying by mixing with the added back powder. This is certainly the equivalent of, if not the literal step of, "cutting into small pieces". This equivalency had been recognized as early as 1907 by Steffen (DX 17, I-164) who then stated:

> "a smaller quantity of dried slices of potatoes (in any form of cut, either in slices, rounds, or in mashed form)".

This court should hold the Faitelowitz claims valid and infringed by defendant.

B. The Volpertas Patent

1. The Issue Presented

The Court below adjudged that defendant did not infringe either claim 3 or claim 7 of the Volpertas patent No. 2,355,670 (PX 2, I-41-44). Claim 7 recited [typographically broken down for convenience of analysis]:

> "7. The process of preparing potatoes in powdered form, which includes all of the constituent elements

of the potato other than water and which is capable of being converted into mashed potatoes by the simple addition of hot liquid, which process consists in

[a] cooking potato pieces in an environment of steam at a temperature of substantially 100 degrees C.,

[b] thereupon pre-drying the potato pieces in the absence of mechanical pressure thereon until the initial weight of the potato mass has been reduced by about one-half due to the loss of water,

[c] cooling the potato mass,

[d] mechanically converting the same into a moist powder,

[e] drying the moist powder under moderate heat and stirring in vacuo until the water content of the powdered potatoes is down to about 12 to 15 percent,

[f] collecting the potato powder thus prepared to a substantial bulk and

[g] continuing the heating thereof until the water content is reduced to between 6 and 10 percent."

Claim 3 is of narrower scope in requiring a specified degree of cooling.

As shown by his Memorandum Opinion (99 R 78-82), Judge Taylor reached his decision that claim 7 (and a fortiori claim 3) was not infringed solely from a consideration of PX 2 which contains the Volpertas

patent, the files of three Volpertas applications, and the prior art. The trial court's ruling is grounded ultimately in his belief that the Volpertas claims in suit do not cover an add-back process. The court below approached Volpertas in this way because plaintiff consistently asserted that Volpertas was the inventor of the add-back improvement to the two-stage drying through a moist powder intermediate product method earlier invented by Faitelowitz, that this add-back improvement had been the only way in which Faitelowitz' invention had had practical commercial use, and that it was his position as "father of add-back" that conferred patentability on Volpertas' claims in suit.

The District Court's erroneous legal conclusion of non-infringement was apparently based on several different concepts. The errors appearing in Findings XV, XX, XXI, and XXIII and in Conclusions IV and VI may be paraphrased (99 R 104-115):

1. That the Volpertas claims in suit did not point out or distinctly claim his invention.
2. That the Volpertas specification does not disclose the invention asserted.
3. That the add-back method was not intended to be embraced within claims 3 or 7.
4. That by failing to prosecute his parent applications, Volpertas is estopped.
5. That by failing to include in his continuation-in-part application claims identical with his earlier ones, Volpertas is estopped.
6. That Volpertas abandoned his add-back invention.

Every one of these theories which the trial judge put forward as a principal basis for decision is a legal conclusion from

undisputed documentary evidence and therefore fully reviewable by this Court. Kwikset Locks v. Hillgren, supra.

2. Claiming the Invention

There is an undoubtedly unintended anomaly in the Memorandum Opinion. It well points up the dilemma of an attorney drawing claims for the immediate scrutiny of a Patent Examiner and the ultimate scrutiny of a Federal Judge. The trial judge had held the Faitelowitz patent not infringed because, presumably, it was too strictly specific to a supposed disclosure of a hot air drying method to cover add-back (99 R 104-105). He went on to hold Volpertas not infringed for the opposite reason. Volpertas had several closely related proposals. One, add-back, has proved extremely valuable and is in universal use, and is admittedly in use by defendant. The District Court has held that Volpertas' claim, which attempted to cover all of the Volpertas proposals and which the court did not find covered anything old, was ineffective to cover add-back because it did not set forth in so many words that one proposal (99 R 107-110). As we will later develop, Volpertas' claim 7 is literally infringed.

3. Disclosure of Add-back

The trial court found that no disclosure of the add-back process as such appears in the Volpertas patent (99 R 108, Finding XX). This is a clear error of documentary interpretation.

The patent in suit, Volpertas III, is a continuation-in-part of two earlier applications, Volpertas I and Volpertas II. Each in turn claimed priority based on an earlier foreign application.

Volpertas I was directed to the problem of case hardening

when using hot air initial drying (PX 2, I-45-97). Volpertas I proposed to do this drying entirely by heat and air flow while smearing the cooked potato against a moderately hot wall in a drying chamber then promptly scraping it off until a moist powder was formed.

Volpertas II is specifically directed to addback drying (PX 2, I-98-160). It gives a specific example of mixing 32 kg. cooked potato with 8 kg. of previously dried powder to produce a damp powder which is then finally dried. Carrying out part or all of this procedure under various degrees of vacuum is an additional feature of the process.

Volpertas III was a new application filed after the inventor came to the U.S. from Europe in 1941, drawn by a new attorney and combined the disclosure of the previous two applications. It is plaintiff's position that this application explicitly discloses a commercial addback procedure (PX 2, I-171-172) and that the trial court was clearly erroneous in interpreting its disclosure otherwise.

What the court did wrong was to hold that the passage relied on by plaintiff was merely an elaboration of the preceding coarse granule reclamation process. Plaintiff respectfully suggests the learned judge confused proximity of typographic location with proximity of subject matter.

Volpertas proposed several drying procedures, each to be carried out in a single container by performing the successive steps therein. In the last paragraph beginning on page 2 of his patent, Volpertas describes by way of example a continuous commercial operation for the production of dried powder.

We quote:

"In commercial practice, the result set forth in the previous paragraph may be attained in continuous

operation, by introducing the cooked potatoes, preferably in mashed condition, into the cylinder in which the final drying is effected. That is, as part of the dried potato powder is withdrawn from the vacuum cylinder, a larger volume of such moist potato mash is added thereto. By reason of the avidity of the dried powder in the vacuum cylinder for moisture, the latter spreads promptly from the moist mash throughout the dried potato mass, so that the water content of the entire mixture is about 50 per cent and the vigorous agitation and heat applied in the continued drying process as above set forth, will not render the potato mass gelatinous. In a specific illustrative example, assuming that the vacuum drying cylinder has 100 pounds of dried potato powder therein, with but 10 per cent water content, 100 pounds of the moist potato mash with say 70 per cent of water content could be added thereto after the withdrawal of 25 pounds of the dried potato powder. Thus, of the content of 175 pounds now in the cylinder, 77.5 pounds will be water and the rest solid, so that the water content is only about 45 per cent. That water content, as above noted, is sufficiently low to avoid gelatinization in the vigorous agitation required for further removal of water." (PX 2, I-171-172).

It is indisputable that this is a direction to leave 75 lbs. of the desired product, the dried powder, in the cylinder at the end of every cycle; to add to that powder 100 lbs. of cooked, mashed potato to be dried; to vigorously agitate and heat the resulting moist powder to produce the desired product, a powder of 10% moisture; to again leave 75 lbs. of this product in the cylinder, and so on in a continuous commercial process.

For some reason, the trial court interpreted the words "the result set forth in the previous paragraph" to mean, not "the [final] result" of "the desired powder" as plaintiff contends, but "the [intermediate] result" of a treatment of coarse dry grains. Since this treatment is described as a pressing together and a leaving undisturbed in a cool environment which is wholly incompatible with the commercial example given, the trial judge was clearly in error when he found that the Volpertas specification did not disclose add-back drying.

4. Claims 3 and 7 Include Add-Back

It will be observed that Claim 7 is literally infringed by defendant's use of the add-back process, for exactly the same reason that Faitelowitz claim 1 is, namely, the mechanism of partial drying. Volpertas' limitation (6) covers three improvements, including add-back, while excluding excessive mechanical pressure. The intermediate product of a moist powder is specified in step (d).

Volpertas proposes three variations of pre-drying the potato. First described (PX 2, I-41, col. 2, line 44ff) is vacuum pre-drying. The freshly cooked potatoes are left in the cooker which is sealed and the air and resulting vapor is evacuated as the potatoes cool. They are reduced a total of 45-55% of their weight under gentle stirring. The potatoes must not

be subjected to excessive agitation or pressure or the cells will break leaving an unpalatable glutinous pasty mass (PX 2, I-41, col. 1, line 30).

A second method of pre-drying is without vacuum under warm (50°C.) not necessarily completely dried air. The potatoes are constantly agitated but not subjected to a pressure which would burst the cells (PX 2, I-42, col. 1, line 14).

The third method of pre-drying is the add-back (PX 2, I-42, col. 2, line 55ff) proposal, in suit here, and dealt with in the earlier section (pp. 100-103).

The qeustion presented here is which one or more of these methods did Volpertas claim and protect in his patent? More precisely, the question is whether the third method, which defendant is using, is covered by claim 7.

The District Court found no infringement because defendant was not using step [b], p. 98, supra:

> "thereupon pre-drying the potato pieces in the absence of mechanical pressure until the initial weight of the potato mass has been reduced by about one-half due to the loss of water,"

which he erroneously found directed to the use of heat (99 R 110, Finding XXIII). But this limitation is clearly applicable to any one of the three methods of pre-drying explicityly disclosed by Volpertas. It requires only that the cells or granules be not so crushed that they rupture. Defendant is using the third method of pre-drying, add-back, disclosed by Volpertas and clearly there is no substantial cell rupture in either its mashing rolls or pug mill mixer.

There is then literal infringement of this step. Where then is the problem?

The trial judge seemed impressed by the fact there was no mention of add-back in this step. Clearly, for present purposes, a claim which specifically mentions and is limited to add-back would serve plaintiff's purposes as well.

It is not the law, however, that the patentee must claim a particular example of his invention. If in fact he does so, he is limited to that example and what he discloses, but does not claim, he dedicates to the public, The CornPlanter Patent, 23 Wall 181, 224 (U.S. 1874).

With the advantage of 20 years hindsight, it may well be possible for experts to look back and to commercially evaluate all of Volpertas' individual proposals. Perhaps today experts would rate his two proposals of add-back and cooling the most important because they are the most used. At the time it was not so obvious that one or the other of his proposals would be better than another. It is not the law that an inventor must guess at his peril the course the industry will take over the next twenty years.

The law is that the claims delimit the monopoly. If Volpertas was to protect all three methods of pre-drying, he must design a claim which specifically includes all three methods. It is the claim alone which measures the grant to a patentee. Stallman v. Casey Bearing Co., Inc., 244 F. 2d 905 (9 Cir. 1957). A claim is not to be narrowed by resort to the specification either to avoid invalidity or to avoid infringement. Graver Mfg. Co. v. Linde Co., 336 U.S. 271, 277 (1949), aff'd. with opinion on rehearing, 339 U.S. 605 (1950).

Here the plaintiff has no need to and does not seek to narrow

the claim to the add-back example. Defendant would very much like to, but is not permitted to, narrow the claim to either of the two other examples, hot air or vacuum pre-drying.

5. The Continuation-in-Part Filing of Itself Abandoned Nothing in Either Parent Application

In reviewing the prosecution of history of Volpertas I and II, it should be borne in mind that the inventor was in France when the applications were filed. As his attorney noted in his amendment of March 18, 1941 (PX 2, I-68), he was out of communication with either the inventor or the associate attorney due to the war.

What is also perfectly apparent from the record is that neither the attorney nor the Examiner understood the inventions. In Volpertas II the Examiner never did cite the Faitelowitz patent. Rather, he maintained (PX 2, I-120-122) that Volpertas' dry potato powder was the same substance disclosed by four patents dated respectively 1892, 1897, 1914 and 1916. The attorney was completely, if understandably, unaware that there was only one earlier patent which actually disclosed the Volpertas powder - Faitelowitz.

During 1941 Volpertas made his way out of France and reached New York. When he arrived here and reviewed the status of his applications, he decided to start over with a new application. The patent laws allow one to submit a new application claiming the priority of an older one for what both disclose. The present Patent Act of 1952, 35 U.S.C. § 120, is declaratory of the earlier decisional law on this point. This doctrine allows, with two qualifications, the resubmission of the same specification and claims with new arguments or the modification of either.

The first qualification is that the applications must be co-

pending. As of January 1, 1942, when Volpertas III was filed, this qualification was clearly met.

The second qualification, that the effect of res judicata is not overcome by a refiling, was strongly urged as applicable here. We readily agree that if there has been a final appellate decision, e.g., by the Board of Appeals, about a claim in the earlier application, any issue so decided is res judicata. But here there was no final appellate decision. The attorney had merely given notice of appeal (PX 2, I-71, 118). The Volpertas I and II applications were subsequently vested by the Alien Property Custodian because the Patent Office title records indicated Volpertas was an alien resident in France (PX 2, I-83, 142). In view of the actual presence of Volpertas in New York and of the filing of the continuation-in-part application, all parties, including the A. P. C. attorney (PX 2, I-87, 149) agreed to an abandonment of the Volpertas I and II applications.

What is important here is that there is no evidence of abandonment of any invention here involved. Volpertas had, as of January 1, 1942, a perfect right to carry over every one of his proposals into a new application, unprejudiced by any incident of prior prosecution. Examination of the Volpertas III application does show an abandonment of two of Volpertas' proposals, but the add-back of the dry powder product to cooked potatoes is not one of them. The Volpertas III specification does omit any mention of "crushing, disintegrating and scraping" described in Volpertas I. It also omits the add-back of dry powder to moist powder of Volpertas II. Neither method is involved here.

It is basic that to show an abandonment one must show both an intention to abandon and an affirmative act of relinguishment. Linscomb

v. Goodyear Tire & Rubber Co., 199 F. 2d 431 (8 Cir. 1952). Here the applicant did neither. He affirmatively claimed the priority of both applications and explicity disclosed an excellent example of the commercial add-back process.

6. No File Wrapper Estoppel

The District Court found that Volpertas had given up his add-back claims. The court postulated that Volpertas' experience showed him that such a claim would be rejected in view of existing patents (99 R 110, Finding XXIII). On the contrary, plaintiff will show that the evidence was exactly the opposite; that Volpertas did not give up claims broad enough to cover add-back and there was no art requiring him to do so. Thus, plaintiff submits, the court below was wrong in both his assumption and his conclusion.

The trial judge found (99 R 109) that Volpertas III was filed (January 1, 1942) about the same time that the add-back claims of Volpertas II were finally rejected. Actually, the only claims of Volpertas II ever finally rejected (on January 10, 1941) were Nos. 5-8 directed to mixing dry and damp powder, not dry powder and cooked potatoes (PX 2, I-117).

The court below also reasons that because there is a claim in the Volpertas patent specifically directed to add-back of dry powder for other purposes, these claims are not to be construed broadly enough to cover add-back for pre-drying. Claim 8, contrary to the court's statement (99 R 108), is however directed to add-back for pre-drying. Actually, it closely follows the commercial example in defining the add-back steps and would have been in suit here if it did not also define the manner of producing the initial batch of dried product to make up the ancestral add-back

powder. It is doubted if anybody can trace the ancestry of the first batch of product used as add-back by defendant; the record certainly does not.

7. Volpertas Never "Abandoned" Add-Back as an Invention

Perhaps the best evidence of the industry understanding of Volpertas' position in the art is Templeton's statement of it to Simplot in an annex accompanying his letter of March 8, 1949:

> "(a) Volpertas showed that by using the equivalent step of adding back the end product to the freshly boiled potatoes instead of preliminary drying by heat as suggested by Faitelowitz, the same result could be more easily obtained, that is to say, the mashed potato could be separated into the prerequisite damp powder much more quickly and less expensively and thereafterwards Volpertas' process was substantially the same as Faitelowitz; in short, he proposed a quickening of the first stage of the process." (PX 8, III-47-48).

8. The Affirmative Case for Infringement

The District Judge made no finding about defendant's use of the steps actually recited in claim 7 of the Volpertas patent. His holding of non-infringement is based solely on the various bases for his belief that that claim could not be interpreted to cover add-back. Let us examine what the claim does recite and compare it with defendant's process.

The first affirmative step of claim 7 is:

[a] cooking potato pieces in an environment of

steam at a temperature of substantially 100 degrees C.,

This the defendant clearly does (T. 77).

Limitations [b] and [d] are to pre-drying and formation of moist powder which are met by defendant's process for precisely the same reasons the parallel steps of the Faitelowitz claim already discussed are met.

A distinctive step of claim 7 is:

[d] cooling the potato mass,

The defendant cools before mixing for the precise purpose ascribed to this step by Volpertas (T. 81-83). This cooling hardens the cell walls and helps prevent rupture during the subsequent operations (PX 2, I-42, col. 1, lines 43-45).

There are three further steps in Volpertas' claim 7:

[e] drying the moist powder under moderate heat and stirring in vacuo, until the water content of the powdered potatoes is down to about 12 to 15 per cent,

[f] collecting the potato powder thus prepared to a substantial bulk and

[g] continuing the heating thereof until the water content is reduced to between 6 and 10 per cent.

These steps are accomplished successively in defendant's final drying operation. The moist powder is passed through a first drier which operates at a reduced pressure (T. 106-109) on an air-borne stream

of the product. It is then collected and transferred in a substantial bulk to a final fluidized bed drier where its water content is brought to the recited limit (T. 110).

For these reasons this Court should affirmatively find Claim 7 of Volpertas valid and infringed by appellee.

C. The Rivoche Patent

1. The Issue Presented

The Rivoche patent (PX 3, II-6-10) was the sole patent on which the Court ruled on the issue of validity. The court did not rule on infringement, apparently agreeing with plaintiff that there could be no question of the literal infringement of claim 16 (and by the defendant's process, claim 17 which is dependent on it).

The base claim in suit recites [typographically broken down for convenience of analysis]:

> "16. The method of preparing cooked starchy vegetable foodstuff, in readily-reconstitutable form, from a mass of the cooked vegetable, which comprises performing successively and in the order set forth, the steps of
>
> [a] thoroughly mixing the same with the same kind of dried and powdered vegetable foodstuff in amount to produce a resultant mixture containing not more than about 50% by weight of moisture, and
>
> [b] drying said resultant mixture to form the readily-reconstitutable product,

[c] said drying operation being carried out so as to preserve substantially the structure of the vegetable solids, including capillary properties thereof."

Rivoche was not the discoverer of the add-back process to produce potato granules per se; Volpertas was. Rivoche's contribution was in finding that the process would work commercially and would work well when sufficient dry powder was added-back to produce a damp powder with a moisture content invariably below 50%. The issue presented to that court and to this was whether the discovery of this admittedly valuable direction constituted invention.

The District Court correctly concluded (99 R 113) that the really pertinent prior art to Rivoche is found in the Faitelowitz and the Volpertas disclosures. The Court held correctly that Faitelowitz did not suggest the critical Rivoche limitation because, approaching the problem as he was without benefit of Volpertas' add-back discovery, he was more concerned with warning against excessive partial drying before a moist powder is produced. Faitelowitz stated in his claim 1 that his first stage drying should end and the production of the moist powder be brought about when the potatoes have lost "at the most about 60% by weight of their initial water content", i.e. when an 80% solids potato was down to about 50% moisture or a 75% potato was down to about 37.5% moisture.

The Court however went on to hold that Volpertas' teaching of drying until the potato weight had been reduced by about one-half, i.e. when an 80% solids potato was down to about 60% moisture or a 75% solids potato was down to about 50% moisture, would induce routine experimentation that would disclose the critical limitation found by Rivoche.

2. Presumption of Validity

The trial judge stated that he was mindful of the statutory presumption of validity (35 U. S. C. § 282), before going on to find Rivoche's patent obvious in view of a single reference, Volpertas. What the Judge did not state and undoubtedly did not realize was that he was finding the Rivoche patent invalid on a reference cited by the Patent Office in its own prosecution (PX 3, II-31). For this reason alone, the legal conclusion of invalidity is suspect. In this case the presumption of validity is doubly strong because the Rivoche claim 16 here in issue had been already allowed in its essential feature to Rendle, and the Patent Office, being fully informed of this fact, allowed it a second time to Rivoche, over Volpertas.

The rule in this situation was stated in A. M. P. Inc. v. Vaco Products Co., 280 F. 2d 518 (7 Cir. 1960):

> "It is well settled that where the alleged invalidity is based upon a patent which was before the Patent Office and was rejected [by it] as an anticipation of the invention the presumption of a novelty and invention is greatly strengthened." (Emphasis added)

Accord National Sponge Cushion Co. v. Rubber Corp., 286 F. 2d 731 (9 Cir. 1961).

3. The Volpertas Reference

The Court specifically held Rivoche obvious in view of a passage he quoted (99 R 113) from Volpertas' claim here in suit:

> "* * *until the initial weight of the potato mass has been reduced by about one-half due to the loss of water."

This passage is, of course, not prior art per se. It speaks only as of the application date for Volpertas III, January 1, 1942, while the Rivoche application was held by the Patent Office to be entitled to a priority date of September 16, 1939 (PX 3, II-96).

Essentially the same language does, however, appear in three* earlier Volpertas disclosures which are eligible prior art.

For that reason, plaintiff does not object to using the issued Volpertas text as the test of the anticipatory reference. What it does object to is the Judge's inconsistancy with respect to that language.

Either this language is appropriate to cover making moist powder by an add-back process or it is not. The District Judge held Volpertas non-infringed because that very language, in his view, neither claimed or disclosed add-back. Here he would hold Rivoche invalid because identical words do disclose that.

The Memorandum is therefore on its face self-contradictory and plaintiff is entitled to a reversal as a matter of logic as well as law of either one or the other of rulings.

To this extent plaintiff's present argument is frankly alternative. If this Court holds, as the District Judge did when considering Rivoche, that Volpertas' language disclosed add-back, plaintiff is willing to concede that holding Rivoche invalid is supportable. This clearly

* The first U.S. application (PX 2, I-48) bears a date of October 10, 1938 and is eligible under 35 U.S.C. § 102(e); an English patent (DX 17, I-152) and a French patent (DX 17, I-203) are eligible under 35 U.S.C. § 102(a), 104.

requires, however, a holding that Volpertas' language covered add-back and that, therefore, the defendant clearly infringed the claims of Volpertas.

4. The "Reverse" Proposal

Should this Court, however, hold as the District Judge did when considering Volpertas, that the language of Volpertas' claim 7 does cover add-back, it is clear that in no other eligible reference does Volpertas disclose the critical Rivoche limitation.

Plaintiff has always contended, defendant's counsel has admitted (T. 950), and the court below has stated (99 R 71), that Volpertas is the inventor and father of the add-back improvement on the Faitelowitz two-stage drying method. However, Volpertas specifically proposed in the French and British patents which are the only eligible Volpertas prior art references which relate to add-back (DX 17, I-156-196) adding 8 kilograms of dry powder to 32 kilograms of cooked potato. This means that, assuming the dry powder to have 10% moisture, as Volpertas assumes in his commercial example in the patent in suit, we would obtain a moist powder of 66% moisture with 80% solids potatoes, and of 62% moisture with 75% solids potatoes.

The Rivoche maximum of 50% moisture would require adding to 32 kg. cooked potato, not 8 kg. of powder but 24 kg. using 80% solids potatoes or 20 kg. using 75% solids potatoes.

This minimum increase of between 250 and 300% in powder is the invention of Rivoche and, not unexpectedly, from this wide change comes significant results.

5. Evidence of Improved Results

For years it has been accepted by the entire industry, defendant

included, that anywhere below 50% moisture in the moist powder produces a good commercial product and anything above 50% does not.

Plaintiff reminds this Court that Rivoche's date of invention was September 1939 (PX 3, II-96). His improvement was not a suggestion that came along after the powder had been commercially produced for years. His invention came before any commercial product and was, the evidence shows, essential to that commercial product.

Dr. Rivoche himself was the courier of the inventions to England. He met Mr. Templeton in September 1939 (T. 164), the same month he filed his British application. It was not until much later that British war production first produced the potato granules which incorporated his invention (T. 168).

During the war several things occurred which are relevant to the issue of the obviousness of Rivoche's proposal. First was that the British Government's Low Temperature Research Station cooperated with F. M. S. to set up a pilot plant to test these proposals at Dundee (T. 168). The second was that Rivoche returned to France in May 1940 where he was caught in the Blitzkreig and hid out in Vichy for the duration of the war. His various British patents did not issue, therefore, until 1948 (PX 3, II-121, 126).

With an understandable amount of wartime confusion, the British Army was unaware of the British Civil Government's work directly with the Rivoche process. Rivoche had visited the army and demonstrated his process. A report of this was as follows:

> "The powder appeared to have most of the desirable properties, i. e., it reconstituted easily, the flavour was good, it kept well and

> without gas packing, and the calorie/volume ratio was far in advance of any of the pre-war dehydrated vegetables. * * * M. Rivosche (sic) never divulged his process, and we were unable to get into touch with him after the fall of France."
> (PX 11, tab 40, III-296).

Volpertas' two British patents had issued in 1938 and 1940 respectively. Yet here we have an admission that the British Army was unable with these references before it to produce the change which the Judge, characterized as "adding very little, if anything, to the known art". (99 R 112).

A Mr. Barker of the above mentioned Low Temperature Research Station two years later proposed a non-add-back variant of the Faitelowitz system suggesting a moist powder range of 40 to 60% (DX 17, I-230). As this invention was made after Rivoche's, it is not prior art. It does support the validity of both Rivoche and Volpertas, however. It is their system, not Barker's, which the industry was shortly to adopt. However, neither the efficacy of add-back nor the importance of the 50% were apparent to Mr. Barker.

The reason this increase in powder was not obvious is that it would clearly reduce dryer capacity and in any case, it was thought it could not be done. It is, of course, clear that when dry powder is used as add-back, the potato cells which make up that powder and were once raw and wet, then cooked and wet, and finally were dried have to be remoistened and redried at least once. Workers in the art assumed that the repeated remoistening and redrying would rupture these cells. Volpert's initial proposal of 8 kg. powder to 32 kg. cooked potato which

was not per se commercially feasible and would barely work, required only one recycling of the average add-back cell. Rivoche required a minimum of three recyclings.

That is to say, Volpertas' specific proposal started with 8 kg. of powder, which at 10% moisture, contained 7.2 kg. of potato solids. The useful output, using even low solids (80%) potatoes from the addition of 32 kg. of cooked potatoes would be only 6.4 kg. of potato solids. Hence about half the total solids in the initial mix would come out as product and the other half would get a second cycle of moistening and drying. Another way of stating this is to say that the average Volpertas cell got two moistenings and dryings. With Rivoche's proposal also starting with 32 kg. of cooked potatoes to be dried, even high solids (75%) potatoes would yields only 8 kg. of potato solids as product and would require 20 kg. of dry powder as add-back to produce this result. Hence about a third of the total solids in the initial mix would come out as product and the other two-thirds would be recycled. Another way of stating this is to say that the average Rivoche cell got a minimum of three and one-half moistenings and dryings.

Greene in 1947 pointed out that a problem of the add-back process was that it decreased the capacity of a dryer (PX 11, III-285, tab 28). The Volpertas two-pass recycling would cut the capacity 50%. The Rivoche minimum triple recycling would decrease the capacity at least 75%.

Mr. Templeton at trial pointed out another well-known obstacle to lowering the moisture content. The constant rewetting and redrying of a single granule tends to increase both the cost of drying and the probability of cell damage (T. 1593).

Thus we have men skilled in the art attempting to improve on the Volpertas add-back proposal. With the benefit of hindsight, we know how simple the final solution was -- increase the seed 250-300%. However, these men "knew" that this would merely decrease capacity, increase costs, and increase the chance for cell rupture. Instead they proposed to abandon the add-back altogether and turned to "brush-seive" (Barker) or "freeze-squeeze" (Rendle and Greene).

6. A Meritorious Improvement

Plaintiff asserts that it has brought its case for Rivoche within the ruling of Twentier's Research Inc. v. Hollister Inc., 319 F. 2d 898 (9 Cir. 1963):

> "It is not difficult to discern the foregoing indicia of invention in the present patent... it works. None of the prior devices did." (Emphasis Court's).

Nor are improvements otherwise less favored in the courts than basic inventions. The Supreme Court said in Eibel Process Co. v. Paper Co., 261 U.S. 45, 63 (1923):

> "Indeed, when one notes the crude workings of machines of famous pioneer inventions and discoveries, and compares them with the modern machines and processes exemplifying the principle of the pioneer discovery one hesitates in division of credit between the original inventor and improvers; and certainly finds no reason to withhold from the really meritorious improver the application of the rule ut res magis valeat quam pereat."

7. Conclusion

For the foregoing reasons, plaintiff is confident this Court will find the Rivoche patent valid and reverse the judgment of the Court below on this ground on this count. Additionally, plaintiff feels this Court on the evidence before it must find Rivoche claim 16 literally infringed by the defendant's undisputed process.

CONCLUSION

A. No. 18900: This Court should direct the entry of a judgment that DEFENDANT has BREACHED AN ENFORCEABLE AGREEMENT and should ACCOUNT TO PLAINTIFF for its damages.

B. No. 18899: This Court should direct the entry of a judgment that CLAIM 1 OF FAITELOWITZ, CLAIM 7 OF VOLPERTAS, AND CLAIM 16 OF RIVOCHE ARE VALID and have been INFRINGED and that DEFENDANT should ACCOUNT TO PLAINTIFF for its damages not covered by damages collectible in the contract case.

Respectfully submitted,

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Washington, D. C.
February 10, 1964

Certificate of Compliance

I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing Brief is in full compliance with those rules.

W. Brown Morton, Jr.

Certificate of Service

Counsel for appellee have been served with the foregoing Brief by delivery of two copies to the offices of Beale & Jones, 425 Thirteenth Street, N. W., Washington, D. C. and by mailing of two copies to the offices of Hawley & Hawley, 610 Eastman Building, Boise, Idaho, on February 10, 1964.

W. Brown Morton, Jr.

APPENDIX

Specified Error 1. The District Court erred in concluding that the Faitelowitz patent had not been infringed.

The Findings of Fact particularly involved are:

XV (99 R 104), XVI (99 R 104), and XVII (99 R 105).

The Conclusions of Law particularly involved are:

II (99 R 114) and III (99 R 114).

[Errors indicated by underlining or otherwise noted.]

XV.

The Court finds that the Faitelowitz and Volpertas patents in suit are most susceptible of disposition on the ground of non-infringement, for defendant's process clearly does not infringe any of the claims of either of said patents.

XVI.

Plaintiff accuses defendant of infringement of claims 1, 2, 4, 5, 6, 7 and 8 of the Faitelowitz patent. These claims are accurately set forth in Plaintiff's Exhibit No. 1. Although the claims of a patent are the sole measure of the grant and the means by which infringement is to be determined, plaintiff did not attempt to make any comparison, between the accused process and the claims in suit, at the trial or in plaintiff's written briefs. This oversight is justified only by the fact that no significant comparison exists. Each of the claims of the Faitelowitz patent, other than claim 1, is dependent on claim 1 thereof. Each of the claims in suit covers a process in which the all-important initial drying stage is performed on small cut pieces of cooked vegetable and is accomplished

by means of heat which must not substantially exceed 100 degrees C.* In comparing defendant's process with the Faitelowitz claims, it is obvious that defendant accomplishes the predrying stage by using the add-back method which does not involve, and is contrary to, the method employed by Faitelowitz. Add-back is the later improvement attributed to Volpertas and is not suggested by Faitelowitz. Plaintiff urges that the doctrine of equivalents is applicable, but did not attempt to apply the doctrine at the trial or in written briefs. The Faitelowitz claims cannot be construed by any reasonable application of said doctrine to cover the defendant's process. The existing evidence clearly supports a finding of non-infringement with respect to each and every claim of the Faitelowitz patent in suit, and the Court so finds.

XVII.

Plaintiff's main contention is that the defendant's process utilizes the Faitelowitz principle** and thus infringes the patent. According to plaintiff's expert witness, Templeton, this principle is that: "the potato cells, within which are enclosed the starch grains, may, after cooking, be separated without injury to the membrane of the cells after a partial drying and before final drying." (T 204) In the first instance, it has been recognized that one cannot patent a principle.** Secondly, the evidence convincingly demonstrates that Faitelowitz did not disclose a

* It is true that each of the Faitelowitz claims covers such a process; it is not true that any is infringed only by such a process.

**The true legal consequences of the semantics involved in these several uses of the term "principle" are thoroughly covered in the foregoing Brief.

practical process for putting that principle* to use. Templeton admits that the Faitelowitz process has never been used for a commercial operation anywhere in the world. It took the add-back suggestion of Volpertas to put the so-called Faitelowitz principle* into actual operation, and this departure from the Faitelowitz process is a distinguishing feature of most of the processes used in the industry, including defendant's process. The plaintiff has failed to sustain its burden of proving that defendant's process infringes any of the claims of the Faitelowitz patent.

II.

Claims 1, 2, 4, 5, 6, 7 and 8, and each of them, of U.S. Patent 2,119,155 have not been and are not infringed, by defendant.

III.

Claims 1, 2, 4, 5, 6, 7 and 8, and each of them, of U.S. Patent 2,119,155 cannot be construed by application of the doctrine of equivalents, or otherwise, to cover defendant's processes.

Specified Error 2. The District Court erred in concluding that the Volpertas patent had not been infringed.

The Findings of Fact particularly involved are:

XV (99 R 104), XX (99 R 107), XXI (99 R 108), and XXIII (99 R 109).

The Conclusions of Law particularly involved are:

IV (99 R 114) and VI (99 R 114).

[Errors indicated by underlining or otherwise noted.]

* The true legal consequences of the semantics involved in these several uses of the term "principle" are thoroughly covered in the foregoing Brief.

XV.

The Court finds that the Faitelowitz and Volpertas patents in suit are most susceptible of disposition on the ground of non-infringement, for defendant's process clearly does not infringe any of the claims of either of said patents.

XX.

Section 112, Title 35, U.S.C.A., of the Patent Laws of the United States, and its predecessor, compel an applicant for a patent to conclude his application with "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention" after first having set forth in the specification the "best mode contemplated by the inventor of carrying out his invention." Neither of the claims 3 and 7 of the Volpertas patent points out nor distinctly claims the add-back method. Said claims refer only to "pre-drying the potato pieces in the absence of mechanical pressure" to reduce the moisture content of the cooked potato pieces in the first stage of the process. Other than this, the method used to accomplish pre-drying is not specified in the claims in suit. Resorting to the specifications which are supposed to show the inventor's best mode for carrying out his process, the Court finds that the Volpertas pre-drying is to be accomplished by heat.* This method is referred to on several occasions in the patent. Thereafter, Volpertas explains that if his process, using heat for pre-drying, is carried on in an ideal manner, no coarse particles should appear in the potato powder. However, he elaborates, that if there are

* In one Volpertas process this is true, but not of the Volpertas "commercial" example.

some coarse particles, the same may be reclaimed by softening them by the add-back method. Then it is stated that: "In commercial practice, the result set forth in the previous paragraph" (reclaiming the coarse particles by add-back) "may be attained in continuous operation" and he goes on to illustrate such reclaiming by add-back. (Plaintiff's Exhibit No. 2.) In view of this disclosure in the specification, plaintiff argues that claims 3 and 7 include the add-back method or step and that defendant's process is equivalent to said claims in all respects. However, it should be noted that Volpertas specifically claimed an add-back step in claims 5 and 8 of his patent which claims are not in suit. In claims 5 and 8 said step is used at other stages in the process, and not for the purpose of pre-drying the cooked potato pieces in the first instance.

XXI.

The Court believes that the reason Volpertas did not expressly claim the add-back method for accomplishing pre-drying in the claims in suit is quite obvious from an examination of the patent's file wrapper history. Defendant urges that said examination be made to support its contention that plaintiff is estopped from including the add-back method in claims 3 and 7 on the ground of file wrapper estoppel. The evidence supports the finding of file wrapper estoppel against Volpertas and plaintiff with respect to each of his claims 3 and 7 in suit.

XXIII.

Under the circumstances set forth in paragraph XXII, above, the Court finds that Volpertas abandoned his claims to the add-back method for the different process covered by the claims in suit. The evidence reveals that he abandoned add-back because his experience

with his prior copending application taught him that such a claim would be rejected in view of prior patents. The method which Volpertas did claim*, in his patent in suit, is pre-drying the cooked potato pieces by the first stage of his operation by the use of heat which is plainly disclosed by his specification. The Volpertas method covered in the claims in suit cannot be construed to be in any manner equivalent to the add-back method as used by the defendant. Accordingly, the Court finds that the defendant has clearly not infringed claims 3 and 7 of the Volpertas patent.

IV.

Claims 3 and 7, and each of them, of U.S. Patent 2,352,670, have not been and are not infringed, by defendant.

VI.

Claims 3 and 7, and each of them, of U.S. Patent 2,352,670 cannot be construed to cover defendant's processes or the add-back method by application of the doctrine of equivalents, or otherwise, and because the patentee Volpertas deprived himself of the opportunity to invoke the doctrine of equivalents by his own file history estoppel.

Specified Error 3. The Court erred in concluding that the Rivoche patent was invalid.

The Findings of Fact particularly involved are:

XXVIII (99 R 112) and XIX (99 R 113).

* Volpertas did, of course, cover this method in his claims in suit, but he did not thereby exclude defendant's process.

The Conclusion of Law particularly involved is:

V (99 R 114).

[Errors indicated by underlining or otherwise noted.]

XXVIII.

The evidence reveals that Rivoche's contribution to the art of processing an instant mashed potato covered in claims 16 and 17 added very little, if anything, to the known art. Defendant cites several foreign and United States prior patents in addition to those of Volpertas and Faitelowitz to support its contentions that Rivoche contributed nothing which could be called an invention. However, said patents concern processes for making products other than mashed potato powder. The most pertinent prior art is that disclosed by the patents of Faitelowitz and Volpertas. These patents show that Rivoche was not the first to determine a probable point of departure between the first and second stage drying operations. Faitelowitz teaches that the cooked potatoes should be first dried until they have "lost at the most about 60% by weight of their initial water-content". Volpertas said, "until the initial weight of the potato mass has been reduced by about one-half due to the loss of water." Rivoche's alleged improvement is the direction to dry the potatoes down to the point where they contain "not more than about 50%" moisture. The Court believes that Faitelowitz' teaching might exclude experimentation beyond the point stated, but that Volpertas suggests experimentation in order to find the optimum point of departure between the two drying stages. Rivoche does nothing more than teach a minimum point of departure, leaving the optimum for experimentation. The defendant has been able to obtain an acceptable product by drying the cooked potatoes down to the percentages specified

by all of the patents, but has, as the Court believes one skilled in the art would have, experimented to find the optimum point of departure as is suggested by Volpertas. Therefore, the Court is of the opinion that Rivoche's alleged improvement over Volpertas, is as contended by defendant, not inventive.

XXIX.

The Court finds that claims 16 and 17 of the Rivoche patent in suit are each non-inventive and invalid. Under these circumstances, the issue of infringement of said claims for other reasons is academic as are the other defenses urged by the defendant.

V.

Claims 16 and 17, and each of them, of U.S. Patent 2,520,891 are invalid.

Specified Error 4. The Court erred in concluding that the parties had not entered into a relationship the breach of which by defendant gave rise to an enforceable claim for damages.

Specified Error 5. The Court erred in concluding that the so-called "contract" action had been barred by laches and the Statute of Limitations.

The Findings of Fact particularly involved are:

VII (00 R 46), VIII (00 R 46), XI (00 R 49), and XII (00 R 50).

The Conclusions of Law particularly involved are:

II (00 R 51), III (00 R 51), IV (00 R 51), and V (00 R 51).

[Errors indicated by underlining or otherwise noted.]

VII.

The testimony of the parties being in substantial conflict, and of necessity somewhat vague because of the lapse of time since the initial negotiations in 1949, the Court finds the most credible evidence concerning the dealings and negotiations between the parties looking to some contractual agreement is found in chronological order in the correspondence between them, Plaintiff's Exhibit No. 8. The Court finds from the evidence that the plaintiff has failed to sustain the burden of proof incumbent upon it to establish a contract existed between the parties.

VIII.

No express contract, either oral or in writing, was ever entered into between the parties. The record shows only an indefinite and general understanding as to what their arrangements should be for the development and production of an instant mashed potato product for sale in the United States. Under the broad outline, plaintiff would grant defendant an exclusive license for the use of the Faitelowitz, Volpertas and Rivoche processes and would assist defendant in establishing its operation in exchange for a royalty based on production. Any agreement, however, was at all times subject to the approval of defendant's legal counsel, which, as events transpired, was never received, and thus prevented the parties from reaching a meeting of minds on the terms of an agreement.

Two main areas of conflict developed between the parties in their unsuccessful attempts to reach an agreement. The first involved the plaintiff's alleged ownership of the patents in question. The record

shows that in April, 1949, plaintiff's predecessor acquired the Volpertas patent, and the Rivoche application owned by the plaintiff's predecessor was still pending. The Faitelowitz patent was and had been since 1943 the property of the Alien Property Custodian, and 75% of it had been assigned by Faitelowitz to one Marcos Bunimovitch in 1938. Plaintiff did not cure these defects in its title to the Faitelowitz patent until long after negotiations between the parties had terminated. Secondly, the defendant's patent counsel emphatically objected to the validity of the patents* and though importuned by Templeton and his patent counsel to take a position otherwise, defendant's counsel remained adamant in his legal position.

The first of the proposed formal agreements, in writing, was prepared by plaintiff's counsel and forwarded to the defendant on March 28, 1949. Defendant's counsel immediately raised the validity of the patents and the agreement was not signed. The parties, however, continued to negotiate on the assumption that the legal problems might be resolved, and Templeton encouraged the defendant to continue with its experiments. By October 12, 1949, the parties had reached no agreement, and at that time Templeton by letter advised the defendant that he would terminate negotiations unless the parties came to terms and at that time requested reimbursement of half of the traveling expenses and attorney's fees incurred. Defendant denied any obligation in connection

* Correspondence between defendant and its patent counsel was withheld from discovery on the ground of privilege. Moreover, the same counsel was also defendant's trial counsel and no statement of his actual advice was ever made of record herein.

with this reimbursement but did, however, forward on December 16, 1949, a proposed written agreement from its counsel substantially* differing from the initial proposal of the plaintiff. This agreement went unsigned on advice of plaintiff's counsel. Thereafter, plaintiff sought to license other producers in the United States and appointed an agent in this country to negotiate with defendant and others in this respect.

Defendant went into full production in 1951, without there being at that time any agreement between the parties. Plaintiff had full knowledge of this, but took no action to prevent defendant's use of the processes in question nor to recover any compensation for technical information which it had furnished to the defendant. Plaintiff, instead, concentrated on attempting to still obtain some form of a contract between the parties, and on August 18, 1951, proposed an agreement based solely on the Volpertas and Rivoche patents. Defendant would come to no terms on this. The last serious effort between the parties to negotiate some form of agreement occurred in June of 1952 at a conference between representatives of the parties, but likewise nothing came of this. Defendant continued to produce the instant mash potato powder and by 1954 had united with other producers in a joint defense against any legal action which might be taken against them. (Letter of May 4, 1954.) The plaintiff threatened such action, but none was forthcoming

* Most of the terms of these two formal agreements were the same, but in respect of defendant's obligation to commence payment of a minimum royalty, the terms proposed by defendant's counsel constituted so overreaching a departure from the oral understanding underlying it as to be unacceptable.

until in 1959 when its patent infringement action against the defendant was filed and this action was instituted a year later.

XI.

The Court finding that no express oral contract resulted from the negotiations of the parties, the cause of action for breach of contract accrued at the latest when the defendant went into production in 1951, and not as the plaintiff contends in 1956 when it received back from the Alien Property Custodian the Faitelowitz patent. The record further shows, without question, that by the year 1954 the defendant was openly and publicly critical of plaintiff's attempts to license other producers under the three patents involved and that such attitude was within the full knowledge of the plaintiff, the only conclusion to be reached being that defendant had no intention of reaching any agreement under which it would pay royalties to the plaintiff. Thus, if plaintiff was lulled into a sense of security as plaintiff contends, because of defendant's willingness to negotiate, which the Court does not find to be the fact, plaintiff's cause of action on any basis as set forth in its complaint would have accrued by 1954 at the very latest. The negotiations between the parties, though extended over a long period of time, never assumed the status of a contract; and not only did there exist no meeting of the minds, but the record in fact discloses the parties in complete discord on the very essence of any agreement, since the defendant at all times questioned the validity of the patents and the plaintiff's ownership thereof and the plaintiff at all times would under no conditions agree to the minimum royalty which defendant agreed it reluctantly would pay under all of the circumstances. That the negotiations continued

for such an extended period can be credited only to Templeton's perserverance and unwillingness to pursue any other remedies.

XII.

An action on an oral contract must be instituted within four years after the cause of action accrues. Section 5-217, Idaho Code. Plaintiff's action alleging an oral agreement between the parties therefore is barred under the Statute of Limitations. An agreement implied in law where benefits are conferred by one to another under circumstances which in equity and good conscience should not be retained without payment therefor likewise must be instituted within four years after such action accrues. Section 5-217, Idaho Code. Any action on the basis of an implied or quasi agreement between the parties having accrued in no event not later than the year 1954, such action likewise is barred by the Statute of Limitations above cited.

II.

That no express contract, either oral or in writing, was ever entered into by and between the parties.

III.

That no contract may be implied in law between the parties.

IV.

That by failing to institute suit against the defendant until February 1, 1960, the plaintiff is guilty of laches, barring its recovery in this action.

V.

That the Statute of Limitations of the State of Idaho, Section 5-217, Idaho Code, operates as a bar to this action by the plaintiff, either on its theory of an express, oral contract or a contract implied in law.

LIST OF EXHIBITS

Exhibit	Description	Offered	Admitted
1	Faitelowitz Patent	10	11
2.	Volpertas Patent	15	16
3.	Rivoche Patent	18	18
4.	Title to Patents	23	28
5.	Report	42	46
6.	Chart	47	49
7.	Equipment List	126	127
8.	Correspondence	175	177
9.	Letter - 3/16/49	194	195
10.	Handwritten Notes	194	196
11.	From Harrington and Olson Deposition	257	285
12.	Paddle Mixer Drawing	365	368
13.	Photographs (3)	366	368
14.	Flow Sheet	387	387
15.	Agreement	686	686
16.	Assignments	690	691
17.	Patents	692	1026
18.	Application	758	758
19a.	Drawing	802	
19b.	Drawing	802	
20.	Order	830	
21.	Chart	885	
22.	Deed (From V&R)	919	920
23.	Assignment	943	943
24.	Samples (2)	944	

Exhibit	Description	Offered	Admitted
25.	Microphotographs (4)	960	960
26.	Report (Kueneman)	975	993
27.	Letter (4/10/43)	978	
28a.	Sketch	981	983
28b.	Sketch	981	983
28c.	Sketch	981	983
29a-g.	Kueneman Notes	1010	1013
30.	Volpert Patent (foreign)	1020	
31.	Rivoche Patent (foreign)	1020	
32.	Book-Food Technology	1030	1030
33.	Correspondence	1047	1047
34.	Patents	1047	1048
35.	Draft Report	1050	1053
36.	Notes	1050	1053
37.	Notes	1050	1053
38.	Charts	1176	1177
39.	Push Final Specimen	1358	1358
40.	Pull Final Specimen	1358	1358
41.	1961-62 Product	1358	1358
42.	1951 Product	1358	1358
43.	Simplot News	1396	1397
44.	Patent Book	1437	1446
45.	Assignment 12/8/59	1444	1445
46.	Assignment 10/11/61	1444	1445
47a.	Intre Partes Test	1454	1454
47b.	Photographs (21)	1454	1454

Exhibit	Description	Offered	Admitted
48	Shelly Procedures	1475	1475
49a-e.	Notes & Drawings (Blabe)	1487	1487

ANNOTATED "HEADS" SENT BY TEMPLETON TO TROXELL IN DEC. 1949

HEADS OF AGREEMENT between J. R. Simplott Company, Boise, U.S.A., and The Farmers' Marketing & Supply Co. Ltd., London, England.

F.M.S. Company are exclusive licensees and/or assignees and/or owners of various U.S.A. letters patent and/or applications therefor relating to the product of mashed potato powder -- a dried powder made from cooked potatoes -- in which the cellular structures are substantially undamaged by the special processes of treatment described in the letters patent referred to, which are:

No. 2119155 to Arnold Faitelowitz, issued 31st May, 1938.
Application date: 3rd June, 1937.

No. 352670 to Z. Volpertas, issued 4th July, 1944.
Application date: 1st January, 1942.

No. 4533 (application) by E. Rivoche, filed 27th January, 1948.

NOTE: For priority purposes, it must be appreciated that Faitelowitz dates from 1936, Volpertas from 1938 and Rivoche from 1939. Delay in their applications for grant in the U.S.A. was occasioned by war circumstances.

F.M.S. propose to form a subsidiary company -- F.M.S. (America) Inc. -- transferring thereto all their rights and obligations under these Heads of Agreement.

1. F.M.S. undertakes to the Simplott Company:

(a) To grant licenses to manufacture and sell under the said letters patent and all improvements arising therefrom during the continuance of this agreement.

(b) To provide at all times the full technical information within its knowledge and experience now or later during the continuance of this agreement.

(c) To give access to its own factories, laboratories and records to accredited representatives of the Simplott Company.

(d) To give active cooperation in the first stage of necessary laboratory work in selecting the process -- within the patented range -- most suitable for Idaho potatoes and for the adaptation of the machinery now available within the Simplott organization.

(e) To give advice on choice of plant for second stage of commercial production and to arrange for visit of a competent representative before or at the point of start-up of commercial production.

(f) To accept all liabilities which may arise in connection with infringement of other letters patent, always providing such guarantee is limited to the operation of the process or processes arising from Clauses No. 1 to 4 hereabove, that is to say, according to the advice and within the knowledge of the F.M.S. Company.

(h) To withhold from granting any other licenses in the U.S.A. under the said letters patent or improvements thereupon, except with the consent of the Simplott Company unless the quantities of production and sale which follow fall below the quantities referred to under Clause 3(a) below.

2. The Simplott Company undertakes to F.M.S.:

(a) to give its best endeavours to promote the prompt manufacture and the expanding application of the inventions in production and sale.

(b) To provide active cooperation in the first stage of laboratory work for selection of the process or processes -- within the patented range -- most suitable for Idaho potatoes and for the adaptation of machinery now within the Simplott organization.

(c) To give facilities for trial runs necessary for the adaption of the existing plant or modified plant with a view to setting up commercial operation by August 1949.

(d) To agree qualitative standards with the F.M.S. Company for each of the three anticipated markets, viz.,

(i) Bulk purchases by the armed services or departments of the government.

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(ii) Bulk purchases by institutions.

(iii) Domestic purchases by individual consumers (the packetted trade).

and to cooperate with the F.M.S. Company in maintaining production and sales policy based upon adherence to such standards.

(f) To advise the F.M.S. Company of any improvements which may arise in the course of its manufacturing operations and to afford such information as may be necessary to enable the F.M.S. Company to protect such improvements.

(g) To pay royalties upon sales quarterly in amounts approximating to the dues arising at the rates of percentage hereafter described, such rates to be calculated on the wholesale prices ex factory of production less reasonable brokerage actually paid out, less reasonable costs of pack:

Quantities up to 2,500 tons	4%
2,501 tons to 5,000 tons	3%
5,001 tons to 10,000 tons	2%

Mr Simplott prefers 2½% on the price including pack - I agree. Or he can have 3% of price less cost of pack. AB

(h) Always provided that if a new patented process arises which the F.M.S. Company are unable to restrain or control as an infringement of the said letters patent or improvements thereupon, or if a new non-patented process arises, the foregoing rates of royalty on demand from the Simplott Company shall be reviewed and revised by joint agreement or, if there shall be dispute between the parties, the extent of such dispute shall be communicated to arbitration and the arbitrator's decision accepted as final.

3. (a) The tonnages which are to exclude and withhold the granting of any other license in the U.S.A. without the consent of the Simplott Company are:

1st year	1,000 tons	)
2nd year	2,500 tons	) Years to be
3rd year	5,000 tons	) 1st August to
5th year	7,500 tons	) 31st July
7th year	10,000 tons	)

provided the Simplott Company shall have the right in respect of the first two years, that is to say, the years ending 31st July 1950 and 31st July 1951, whether or not the quantities of 1,000 and 2,500 tons (hereabove) which have been manufactured and sold, to require the F.M.S. Company to continue to withhold the issue of any other license in the U.S.A. by the remission of the following cash payments:

For the first of the two years: $6,000.00 in quarterly amounts of $1,500.00.

For the second of the two years: ~~$20,000~~ 16.000.00 in

was I think agreed as

(b) In any event, licenses to the Simplott Company shall continue for the period of the longest patent and in the event that the foregoing figures (3a) shall not be realized and the right of the F.M.S. Company to license others shall be exercised, still the license to the Simplott Company shall continue for manufacture in the Caldwell-Boise area of Idaho for as long as reasonable quantities shall be manufactured therein.

(c) Termination clause to be the customary clause in such a case.

_____ _____

DATED at

this day of 1949

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COPY OF HAND WRITTEN LETTER OF TRANSMITTAL
WITH ANNOTATED HEADS OF AGREEMENT

105 LaSalle, Chicago

7/12/49

Dear Mr. Troxell:

I was glad to speak with you and I enclose spare copy of the basis originally come to during my visit last winter.

My notes thereon are self explanatory.

My language is not legal Mr. Edmunds submitted a legal draft. The points remain - the original draft may be best for our present purpose.

Subject the amendments which I understand Mr. Simplott and I wish to sign a contract to these effects and to get to work.

Clearly this means he and I will proceed on the assumption that the two granted patents are valid and that the application when granted will be valid, and we will further assume we have good protection unless events prove otherwise in which event as has always been provided Mr. Simplotts obligations are modified accordingly.

The principal ground for our belief is that a substantial challenge has been made and successfully rebutted in the U. K., and I am confident a similarly strong position can be held here.

COPY OF HAND WRITTEN LETTER OF TRANSMITTAL
WITH ANNOTATED HEADS OF AGREEMENT (Continued)

I think Mr. Simplott ought to agree to pay the deficiency or exclusion payment of $3000 due up to December. I have spend over $3000 on search and inquiry to strengthen the patent position and a much larger sum in travelling time etc. Some of it at Mr. Simplotts specific suggestion, and if this is agreed I would appreciate payment of the first $1500 to Messrs Peat Marwick Mitchell 105 LaSalle Chicago, Ill. who are my companies financial agents, as soon as possible.

Yours sincerely,

/s/ Robert Templeton

I shall be at Burlington Hotel Washington between 2 and 4 pm. Washington time, and I hope then to hear from you.

In the United States Court of Appeals

For The Ninth Circuit

No. 18,899

TEMPLETON PATENTS, LTD.,
Plaintiff-Appellant,

v.

J. R. SIMPLOT COMPANY,
Defendant-Appellee.

APPELLEE'S BRIEF IN NO. 18,899

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35 USC 102 (e) at pages 48, 18a
35 USC 102 (f) at pages 53, 18a

35 USC 135 at page 42

BRIEF

Page 28, in paragraph "(3)", third line:
"pre-cooked" should be pre-cooled

Page 45, fourth line from bottom -
"1949" should be 1950

APPENDIX

Page 6a, fourth line from bottom -
"rools" should be rolls

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In the United States Court of Appeals

For the Ninth Circuit

No. 18,899

TEMPLETON PATENTS, LTD.,
Plaintiff-Appellant,

v.

J. R. SIMPLOT COMPANY,
Defendant-Appellee.

BRIEF FOR APPELLEE

I. JURISDICTION

Plaintiff-Appellant (hereinafter termed plaintiff) has appealed from two judgments, each adverse to plaintiff, in two civil actions in the United States District Court for the District of Idaho. As explained in the Prefatory Note, *supra*, this Brief for Defendant-Appellee (hereinafter termed defendant) covers only the appeal in the patent action (Civil Action 3514 below, here No. 18899).

Plaintiff, TEMPLETON PATENTS LTD., is a British corporation engaged in the exploitation and licensing of patents on a world-wide basis, having succeeded to some rights possessed by Farmers'

Marketing and Supply, Ltd., another British corporation, (T-153, 690, 99R 69, DX 15, I 3-21, DX 16, I 23-65).[1]

Defendant is a Nevada corporation with a principal place of business in Boise, Idaho. Defendant has manufactured various forms of processed potatoes and has, at Caldwell, Idaho and at Burley, Idaho, processed potatoes to produce a dehydrated powdered product which goes under various names. (Pretrial order paragraphs 4b and 4c — 99 R 52.)

Plaintiff by its original complaint filed February 24, 1959, accused defendant of infringement of every claim of each of four patents (99 R 3, 4) but by Second Amended Complaint filed October 14, 1959, narrowed its action to alleged infringement of a total of 11 designated claims of three patents [claims 1, 2, 4, 5, 6, 7 and 8 of U.S. Patent 2,119,155 of Faitelowitz, claims 3 and 7 of U.S. Patent 2,352,670 of Volpertas, and claims 16 and 17 of U.S. Patent 2,520,891 of Rivoche] (99 R 8, 9).

Defendant answered, denying infringement of, and denying the validity of, each of the 11 claims in suit and asserted other equitable defenses including estoppel and the laches of plaintiff. Defendant counterclaimed for a declaration of non-infringement and invalidity of the patents in suit (99 R 11-27).

After extensive discovery, numerous stipulations, and full pretrial, the issues were framed by pretrial Order (99 R-50-59) particularly at paragraph 10 thereof (99 R 56, 57) and the action was tried before The Honorable Fred M. Taylor, District Judge, between January 8 and January 30, 1963 (T 1-1654).

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[1] For the convenience of This Court defendant adopts the same system of references to the Reporter's Transcript of Trial Below as well as to citations from the Record in No. 18899 and No. 18900 and of references to plaintiff's and defendant's exhibits, respectively.

The Trial Court rendered a written opinion on March 6, 1963 (99 R 68-94) and on May 24, 1963, made 29 extensive and detailed formal Findings of Fact (99 R 94-114) and Conclusions of Law (99 R 114-116), and entered Final Judgment (99 R 117, 118) in the patent action. On June 20, 1963, plaintiff filed notice of appeal in the patent action (99 R 119).

The District Court had jurisdiction of the subject matter of the patent action pursuant to 28 U.S.C. §1338(a) and the Patent Statutes (35 U.S.C. §§1 et seq., particularly §281 thereof). Venue was proper under 28 U.S.C. §1400(b) since suit was brought where defendant resides. The Trial Court had jurisdiction of the persons of plaintiff (by voluntary appearance) and of defendant (Stipulation and Order, 99 R 30, 31).

The District Court having rendered final judgment dismissing the patent action *in toto* and after trial, This Court has jurisdiction pursuant to 28 U.S.C. §§1291, 1292(a)(4).

II. STATEMENT OF THE CASE

Plaintiff for its statement of the case in its Main Brief reproduces "and adopts" quotations of selected parts of the Trial Court's Memorandum Opinion. A better statement of these alleged "essential facts" appears in the appendix to this brief where defendant has reproduced the Trial Court's formal Findings of Fact[2] II to XIV inclusive (99 R 96-103)[3] and the remaining FF XV to XXIX (99 R 103 to 114).

This Court holds that where there is conflict between the formal findings and the findings of an opinion, the formal findings must govern.

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[2] Hereafter FF will be used to designate The Trial Court's formal findings.

[3] Emphasis has been employed in this reproduction to show the findings which plaintiff omitted.

Plastino v. Mills (CCA 9 1956) 236 F. 2d 32 at *35*.

Plaintiff's statement of so-called "essential facts" by no means summarizes the case. More is needed to give This Court a grasp of the case.

A. Procedurally and Substantively

Every claim in each of the three patents in suit is directed to a method.[4] This circumstance limits consideration on the issue of infringement to the steps of defendant's processes as compared with the claimed steps of the patented processes to show identity (or when viewed in the light of permissible equivalency of steps). *Englehard Industries, Inc. v. Research Instrumental Corp.* (CCA 9, 1963, 324 F.2d 347); *Celite v. Dicalite* (CCA 9, 1938, 96 F. 2d 242, at *248;* cert. den. 326 U.S. 770) and *Moon v. Cabot Shops, Inc.* (CCA 9, 1959, 270 F. 2d 539 at *543)*.

The Trial Court found as to every one of the seven claims in suit from the *Faitelowitz* patent that there was no infringement by defendant [FF XVI and XVII (99 R 105)] and that there was no equivalency justifying infringement in defendant's processes [FF XVI (99 R 105)]. The District Court did not find, nor did he need to find, anything on the issue of validity of the long expired *Faitelowitz* patent.

Similarly the Trial Court found as to each of the two claims in suit from the *Volpertas* patent that there was no infringement by defendant. He also found on ample evidence (as well as by reason of the acts of Volpertas creating file wrapper estoppel) that there was no equivalency justifying infringement in defendant's processes [FF XXIII at 99 R 110]. The District Court did not find nor did he need to find anything on the issue of validity of the Volpertas Patent which had expired by the time of trial. The court recognized that there were additional differences

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[4] It follows that each of the 11 claims in suit is a method claim.

between defendant's processes and the process *claimed* by Volpertas [FF XXIV (99 R 110)].

The specific findings, and the ultimate findings, of non-infringement and non-equivalency are questions of fact not subject to reversal in the absence of clear error (FRCP Rule 52a); *Graver Tank & Mfg. Co. v. Linde Air Products*, 339 U.S. 605, at *609*.

The Trial Court found as to each of the two claims in suit from the *Rivoche* patent that the process there sought to be claimed was not inventive and that the claims were invalid [FF XXVII, XXVIII (99 R 111-113)]. The District Court did not find, nor did he need to find, anything on the issue of infringement of the Rivoche patent. It follows by operation of law that an invalid claim cannot be infringed.

Determination of the issue of validity probably involves a conclusion of law although the courts have not been unanimous in this view.[5] The best that can be said for plaintiff's appeal is that the ultimate finding of non-infringement disposed of 9 of the 11 claims in suit on findings of fact while only as to the two Rivoche claims was the ultimate resolution one of mixed fact and law.

Each of the three patents in suit is based on the activities of a foreigner performed outside of the United States. This brings into operation Sections 104 and 119 of 35 U.S.C. and Section 109 of 35 U.S.C. [Act of August 8, 1946, c. 910 §9, 60 Stat. 943], the provisions of which make inadmissible evidence of knowledge, use or other activity in any foreign country except by proof of filing a foreign application *for the same invention*.[6] Much of the testimony of Mr. Templeton (even apart

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[5] There are some cases, including decisions of This Court, which hold that validity is a question of fact, particularly where the issue is resolved by a finding of *lack of invention*.

[6] See Commentary p. 29, 35 USCA.

from its obvious hearsay character) was inadmissible by statute in this patent action.

The Volpertas patent in suit is, additionally, based on two earlier applications for U.S. Patent filed by him. This brings into operation Section 120 of 35 U.S.C., the provisions of which give an applicant for U.S. Patent the benefit of his earlier, copending U.S. application *for the same invention.*[7]

The Rivoche patent in suit was applied for in reliance upon an Act of Congress which gave, to non-enemy residents of friendly foreign countries, the limited right to file U.S. applications for patent *for the same inventions disclosed in earlier foreign applications.* This limited right was conditioned upon citizenship, lack of evidence of aiding the enemy and lack of enforceability against certain U.S. citizens and parties. The Act arose out of World War II conditions, 35 U.S.C. §101-114, Act of August 8, 1946, c. 910 §§1 to 14, 60 Stat. 943.

The disclosure of the Rivoche patent in suit was extensively and improperly changed between the date of application in 1948 and grant in 1950. This brings into operation the invalidating provisions of Section 132 of 35 U.S.C. which *prohibits* the introduction of *new matter* into the disclosure of the invention.[8]

B. The Subject Matter of the Patents

The disclosures of each of the three patents in suit related, in more or less detail, to the drying of vegetables which contain starch. Potatoes are mentioned in each patent but none of the three patents (nor any antecedent application) identifies the potatoes as white, red, sweet, or otherwise. 9 of the 11 claims in suit *embrace other vegetables,* as

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[7] See Commentary 35 USCA pp. 29 & 30.

[8] See Commentary 35 USCA p. 37.

well as "potatoes."[9] This is significant by reason of the ancient doctrine that *what infringes if later anticipates if earlier*. The relevant prior art is much enlarged.

Throughout the trial and in its post-trial and appellate briefs, plaintiff characterizes the subject matter of the patents in suit as the "F-V-R inventions" as though all three patents were somehow merged into an "all for one, one for all" venture. This characterization is refuted by Templeton who admitted that the several methods of the patents were mutually exclusive (T 650-653, 783-789).

The inherently mutually exclusive nature of the three processes in suit was further admitted by Templeton who said (T 231) that the processes of the three patents were:

[Faitelowitz] *"dry it down to this level";*

[Volpertas] *"Suck it out to that level";* and

[Rivoche] *" 'Squeeze it out' which required a step of freezing before squeezing."*

Again talking about the patented processes, Templeton described them as (T 875):

pre-drying by heat,
pre-drying by add-back, and
pre-drying by freezing and thawing.

III. THE "QUESTIONS" FOR DECISION RESTATED

Plaintiff's Main Brief at page 9 specifies the questions to be decided in the form of three negative contentions, not one of which is

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[9] Only claims 3 and 7 of Volpertas are limited to potatoes — but note claims 1 and 2 thereof at PX 2 — I-43.

more than one and one-half lines long. The errors are stated baldly to be in finding non-infringement of two of the patents in suit and invalidity of the third one.

Rule 18-2(d) of This Court seems to require much more specificity than Plaintiff has shown in stating the questions for decision. In compliance with the spirit of Rule 18-3, defendant restates the questions as follows:

A

As to the Faitelowitz patent, the question is not whether the Trial Court's findings of non-infringement of claims 1, 2, 4, 5, 6, 7 and 8 were "clearly erroneous" but whether the Trial Court could have made any other finding in the face of Templeton's admissions: *that the Faitelowitz method had never been used anywhere in the world* (T 564) and that he (Templeton) did not find evidence of the Faitelowitz method in defendant's commercial operation (T 788).

B

As to the Volpertas patent the question is not whether the Trial Court's findings of non-infringement of claims 3 and 7 were "clearly erroneous" but whether the Trial Court could have made any other finding in the face of Volpertas' voluntary surrender of broad add-back claims in his abandoned application [PX 2 -I 100 to 150 particularly at 103, 106-107 and 112-113] and Volpertas' presentation and acceptance of claims which are as patently limited as those of the patent (PX 2), particularly in view of the state of the art (DX 17).

C

As to the Rivoche patent, the first question is not whether the Trial Court's conclusion of invalidity of claims 16 and 17 by reason of lack of invention is sustainable but whether the Trial Court could reach any other conclusion in the face of prior patents (DX 17) including the

antedating U.S. and foreign patents of Faitelowitz and Volpertas (DX-17, PX 1 and PX 2), particularly in the light of Templeton's admission that what *Rivoche* did was to *cut off the top of the moisture range of Volpertas and Faitelowitz* (T 231, 232).[10]

D

As to the Rivoche patent, a further question is whether either of claims 16 and 17 thereof can be found to be valid in the face of Rivoche's failure to disclose the subject matter thereof in either of his 1939 British patent applications (PX 3, II 50 to 63 and PX 3, II 35 to 49) or until his 1948 application for U.S. Patent was pending (PX 2, I 12 to 30), particularly in view of the antedating or intervening prior art (DX 17) and extensive changes in the 1948 application (PX 2, I 12 to 30 and 65 to 97).

IV. ARGUMENT

A. What Happened at the Trial and the Result

The trial lasted over three weeks.

For plaintiff, plaintiff's owner Robert A. S. Templeton testified during the case in chief and on rebuttal. Two U.S. Department of Agriculture employees, Olson and Harrington, testified by deposition as experts for plaintiff.[11] One Glabe testified as an expert on microscopic readings. For defendant, Kueneman[12] and Conrad testified as fact witnesses and gave expert testimony. Dr. Jackson, an independent engineer of high qualifications gave expert testimony for defendant.

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[10] And, inherently, unlawfully *re-monopolize the bottoms of the moisture ranges of the prior patents of Volpertas and Faitelowitz.*

[11] The Olson and Harrington Testimony destroyed plaintiff's case for infringement of Volpertas.

[12] Defendant's director of Research and a life-long expert in the drying and preserving of foods (T39, 139; DX 26, II-38).

Templeton testified in the multiple roles of proprietor, historical narrator, self-appointed expert and, at times, oracle. The nature of his testimony was such as led the District Court to observe as to Templeton:

> *"I have suspected all through the testimony that he is very, very much interested in the outcome of the litigation. I don't think there is a doubt about it."* (T 450)

and

> "Q I take it that you recommend equilibration during their delay between the completion of the drying and the grating or the crushing?
>
> "A Yes. If I may ---"

MR. BEALE: Objection, Your Honor, I don't think that is an interpretation of the patent. It's a recommendation of what he is doing.

THE COURT: *Yes, I don't know whether he is talking about this patent, what he would do then or what he would do now."* (T 215-216.)

As part of plaintiff's case, Templeton put on a laboratory *inter-partes* demonstration before the Trial Court. This demonstration was performed to show the Faitelowitz and Volpertas *processes*. (T 235-251, 309-311, 327-357.)

As part of defendant's case, Kueneman and Conrad put on an *inter partes* demonstration in defendant's pilot plant in Caldwell, Idaho. This demonstration was performed to show that defendant's processes did not conform to at least two of the limitations expressed in claims 3 and 7 of the Volpertas patent. *Defendant has not pre-dried* potato *pieces "in the absence of mechanical pressure"* and *has not finally dried* a

moist powder *under "moderate"* heat and *"in vacuo."* (DX 47A and 47B; Vol. III 157-193.) The Trial Court was invited to (T 954), but did not attend this Caldwell demonstration. The demonstration was preserved as an agreed statement (DX 47a) and photographs (DX 47b).

The entire conduct of the trial supports and strengthens the District Court's formal findings in this action for the same sound reasons stated by The Supreme Court.

> "Rule 52(a) of the Federal Rules of Civil Procedure, 28 U.S.C.A., provides in part: 'Findings of fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witness.' *To no type of case is this last clause more appropriately applicable than to the one before us, where the evidence is largely the testimony of experts as to which a trial court may be enlightened by scientific demonstrations. This trial occupied some three weeks, during which, as the record shows, the trial judge* visited laboratories *with counsel and experts* to *observe actual demonstrations of* welding *as taught by the patent and of the* welding *accused of infringing* it, and of various stages of the prior art. *He viewed* motion *pictures of various* welding *operations and tests and heard many experts and other witnesses. He wrote a careful and succinct opinion and made findings covering all the factual issues.*
>
> *"The rule requires that an appellate court make allowance for the advantages possessed by the trial court in appraising the significance of conflicting testimony and reverse only 'clearly erroneous' findings."* (Emphasis added.)
>
> *Graver Tank & Mfg. Co. v. Linde Air Products Co.*, 336 U.S. 271 at *274, 275;* 69 S.Ct. 535, at *537, 538.*

V. ARGUMENT AS TO FAITELOWITZ

A. The Faitelowitz Patent Is Admittedly Not Infringed

In the conventional patent infringement suit there is usually some doubt about the fact of infringement. Here, as to the Faitelowitz patent, there is no doubt. Templeton admitted non-infringement by defendant.

Testifying as a practical man with extensive knowledge of the art of drying foods including vegetables, fruits and meats (T 159, 480, 481) Templeton stated (T 204)

> "Q. Will you look at Plaintiff's Exhibit No. 1, which the" [sic] "Faitelowitz patent in suit and explanatory papers, look at Faitelowitz patent in suit --
>
> A. Yes.
>
> Q. Are you familiar with that as a document?
>
> A. Yes, I am.
>
> Q. In your factories in England, do you now practice what you consider to be the significant disclosure of that document?
>
> A. *We practice the principle, but we do not use the method he advocates here.*[13]
>
> Q. What is the principle as you understand it?
>
> A. The principle is that the cells -- the potato cells, within which are enclosed the starch grains, may, after cooking, be separated without injury to the membrane of the cells after a partial drying and before final drying."

---

[13] All italics appearing herein in quoted testimony have been added for emphasis.

Templeton further testified on direct examination (T 221)

"Q. *Even with equilibration, would you find a sequence of steps that you have described to us as the way of carrying out the Faitelowitz invention in the laboratory a desirable process for carrying out commercially?*

A. *No, sir.* I would say that it is desirable to carry out commercially until there may be found some better way of reaching this principle.

Q. Do you know such a better way?

A. Yes, I do.

Q. What is that?

A. The way proposed by the co-worker, Volpertas."

On cross examination (T 564) Templeton testified:

"Q. My colleagues tell me that earlier last week during your direct examination *they understood you to say that you knew of no establishment anywhere in the world where the Faitelowitz principle was used commercially?*

A. *That is true.*

Q. *That includes the United States?*

A. *That includes the United States. If you say the method, not the principle.* I think each one, as I have testified, uses the principle.

Q. *I am talking of his method.*

A. *The method of cutting to small pieces and getting to pre-drying range has never been used in any country to my knowledge.*

Q. And that is[14] the plant of the Defendant?

---

[14] Defendant believes the word "is" is an error in reporting and that the question actually commenced "And that includes * * *." This would be consistent with the preceding questions.

A. That is, to the best of my knowledge.

Q. *You find nothing of his method on that chart, Exhibit No. 6?*

A. *Yes."*

Also on cross examination, (T 806, 807) Templeton said:

"Q. *Did you explain* to Mr. Scott or Potato Products Company on or about July 26, 1950, *your view that patent 2,199,155 is unusable commercially?*

A. *Yes.*

Q. What did you mean by the explanation?

A. If one was starting out fresh to acquire a new plant, one would go to the add-back principle on a question of operating cost per pound."

Templeton, on cross examination (T 786) was asked questions concerning whether or not "proposals" of the patents in suit were mutually exclusive and he gave the following answers to the following questions:

"Q. *Are there any others in the range of the F.V.R. that you can perform without performing the other?*

A. Yes, there are.

Q. Will you enumerate them?

A. *Well, starting at the beginning you can work Faitelowitz on his own without any assistance from his co-worker Volpert.*

Q. You would not use any of the rest of the proposals?

A. No, you could do it by himself."

At Tr. page 788 Templeton gave the following answers to the following questions:

"Q. It's Plaintiff's Exhibit 5, the right-up.[15] I don't want you to answer any of these questions 'in vacuo'. I will start off, Plaintiff's Exhibit No. 6, the flow-sheet, and Plaintiff's Exhibit No. 5 which has the chart in it, and as best you can, I want you to bear in mind Mr. Kueneman's testimony that you heard, and I shall ask you, first, *in all of that information do you find any indication to you that the Defendant had ever used in any commercial operation* the freeze-squeeze principle of Rivoche wherein the moisture was mechanically removed by a centrifuge?

A. No.

Q. Did you find any evidence that the freeze-squeeze principle of Rivoche was used for the removal of the moisture by an absorbent roll?

A. No.

Q. *And you have told us that you have not found anything of the Faitelowitz method?*

A. Principle, yes. *Method, no.*"

B. Merely Comparing Defendant's Processes (Shown In PX 5 and PX 6) With Faitelowitz' Claims Shows Non-Infringement

Templeton's admissions, quoted *supra,* of defendant's non-use of the Faitelowitz process, alone provide sufficient evidence to support the Trial Court's findings of non-infringement of the Faitelowitz patent.

Equally sufficient evidence of non-infringement is provided by the claims in suit as compared to defendant's processes illustrated in PX 5 and PX 6. (II 130 to 183)

To assist The Court defendant has reproduced the Faitelowitz claims in suit in the Appendix to this brief at page 38a thereof. A "Pull-out" appendix page has been used to permit comparison with the description of defendant's processes at pages 25 to 28 *infra.*

[15] Obviously "write-up."

The emphasized portions of the claims reproduced in the Appendix have no counterparts in defendant's processes.[16] Faitelowitz' claims 2, 4, 5, 6, 7, and 8, are specifically dependent upon claim 1 and incorporate by reference all language thereof. Plaintiff's Main Brief has made no effort to apply these *dependent* claims to defendant's processes and only a half-hearted effort to do so as to claim 1 itself.

The controlling principle of law is stated in This Court's decision in *Engelhard Industries, Inc. v. Research Instrumental Corp.* (CCA 9 decided October 28, 1963; 324 F.2d 347 at *351*, 139 U.S. PQ 179 at *183*.

> *"A patent for a method or process claim is not infringed unless all of the steps or stages of the process are used* [Royal v. Coupe, 146 U.S. 524 (1892); Goodyear Dental Vulcanite Co. v. Davis, 102 U.S. 222 (1880)], and a patent for an apparatus is not infringed unless the accused device is a copy of the claimed apparatus either without variation, or with such variations as are consistent with its being in substance the same thing. Sanitary Refrigerator Co. v. Winters, 280 U.S. 30, 42, 3 USPQ 40, 44 (1929) quoting from, Burr v. Duryee, 68 U.S. (1 Wall.) 531, 573 (1863)." (Emphasis added)

C. The Faitelowitz Patent Does Not Disclose or Protect the "Principle" Ascribed To It

In an effort (doubtless born of desperation) to sustain this patent Templeton purports to find in Faitelowitz a broad principle. The alleged principle (quoted *supra* at page 12) is that *"the potato cells within which are enclosed the starch grains may*, after cooking, *be separated without injury to the membrane of the cells* after a partial drying and before final drying."

---

[16] Defendant in Appendix pages 39a and 40a has reproduced the Volpertas claims and the Rivoche claims in the same manner and for the same purpose.

One answer to plaintiff's contention for a "principle" is that the Faitelowitz patent, on its face, *fails to reveal separation of cells* and fails even to reveal "potato cells within which are enclosed the starch grains." But another answer is that Templeton admitted as much:

> "Q. You were asked several questions this morning with regard to the Faitelowitz patent; one of the questions related to the preservation of the potato cells. *Do you find any teaching in the Faitelowitz patent in suit which makes any reference to potato cells, and if so, I wish you would point it out.*
>
> A. *I don't think he does use that terminology."* (T 1608)

Another answer to plaintiff's "Faitelowitz principle" contention is that process patents are not granted on broad principles (even if disclosed). The Trial Court properly followed This Court's ruling in *Kemart Corp. v. Printing Arts Research Laboratories* (CCA 9 1953, 201 F.2d 624, at *632)*.

> *"It might be said that both processes rely upon the broad principle* that by proper use of a particular kind of light in connection with a particular type of copy the dots in the highlights of a halftone negative may be photographically eliminated without affecting the tone areas. *But Marx was given a patent for a process; he did not, and could not, patent a principle."*

The *Kemart v. Printing Arts* doctrine is but another way of ruling that *there is no heart or gist* of an "invention." This Court so held in *Nelson v. Batson* (CCA 9 1963, 322 F.2d 132 at *137):*

> "We can only answer, 'that there is no legally recognizable or protected 'essential' element, 'gist' or 'heart' of the invention in a combination patent.' [citing] Entron of Maryland, Inc. v. Jerrold Electronics Corp., 295 F.2d 670, 677 (4th Cir. 1961) quoting Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 345, 81 S.Ct. 599, 5 L.Ed. 592 (1961)."

D. The "Paper Patent" Of Faitelowitz Is Not Entitled To Broad Construction

1. By "law principle" and by admission.

Before the District Court plaintiff made no effort, during trial or in its post-trial briefs, to apply any of the Faitelowitz claims in suit to defendant's processes or to point out any equivalent steps therein (FF XVI 99 R 104). In its Main Brief plaintiff makes a limited effort to apply claim 1 only. Plaintiff relies on equivalency and uses all of the well-worn arguments.

Faitelowitz is asserted to be a "pioneer," "generic" patent which created a new industry for which the U.S. public and Idaho potato farmers in particular are much indebted. The assertion simply does not stand up.

It should not be necessary to observe that raw potatoes are still sold in quantity in this country to housewives who still prefer to cook their own vegetables; nor to note that "potato chips," pre-cooked frozen "french-fried" and many other forms of packaged processed potatoes are available in most urban and rural food stores in our country.

The Court needs only to look at the flow sheets of defendant's processes (PX 5, II 140-143 and PX 6, II, 181-183). As shown thereon defendant alone made "specialized starch," "whole frozen baked potatoes," "canned whole potatoes," "frozen scalloped potatoes," "flour and meal," "loose frozen, shredded, mashed, stuffed" potatoes, "frozen 'french fried' potatoes," "diced potatoes for dehydration or freezing," "frozen hashed brown or patties." None of these products has any relevancy to the patents in suit—certainly the U.S. public and Idaho potato farmers are not indebted to plaintiff for them and certainly mashed potato powder is but a small segment of the potato industry.

This Court stated in *Cocks v. Rip Van Winkle Wall Bed Co.*, (CCA 9 - 1928; 28 F.2d 921, at *922*):

> *"Another reason why the appellant's combination should not* receive the construction due to a pioneer invention, but, on the other hand, should *be strictly construed, is the fact that although the invention has been patented nearly ten years*[17] *before the present suit was begun, it had not been utilized or placed upon the market but was still a paper patent."* (Emphasis added.)

Here, there is also a cogent admission in a June 10, 1949 letter by plaintiff's counsel to defendant's patent counsel; (PX 8-III 110):

> "In the third paragraph of that letter it is stated that it was your opinion that the Volpertas and Faitelowitz patents are not basic patents. *I think I could agree with that statement, whatever the meaning given to the much used and abused word 'basic.' The two patents cannot be 'basic' patents under any definition of the word which I think can be accepted."*

2. <u>Because of prior art.</u>

Templeton gave credit to Faitelowitz as the first to observe potato cells under a microscope, as the first to make unruptured dried cells or granules, and as the first to describe a process of drying in two stages while stopping in the middle. Every one of these "firsts" was old in the prior art.

The *1898 Neuman* patent cooked potatoes, let them cool, mashed the cold potatoes, let the cold mash stand for an hour, reduced this product to small particles or *granules* and desiccated or dried this product which was yellow and made an edible product. (DX 17, I 75) Templeton said this was a useless process--but then so was Faitelowitz'.

---

[17] Here 21 years at commencement of suit and 24 years when Templeton testified at the trial.

Templeton criticized the process because of pre-treatment with sulfite (which defendant uses in its processes) and reference to "slimes" (which defendant obtains in its lye peeling steps).

The *1912 Cooke* patent described a cooked, shredded, dried, potato product having *unruptured potato cells.* (DX 17, I 78, 79.) Cooke describes cooking, dividing the potatoes, while cooled by air at 30° to 100° F. then shredding *or otherwise more finely dividing* the predried product which is then dehydrated by hot air at 100° to 180° F. Cooke warns against grinding or crushing as this would rupture the cell walls which enclose the starch cells or granules. Claim 6 of this 50-year old Cooke patent reads:

> "[6] As a new article of manufacture, *dehydrated finely divided potatoes having the cell walls of substantially all of the cells enclosing the starch granules intact."*

The *1926 Heimerdinger* patent cooks potatoes, rices them, while hot, through a screen, and spray dries the screened particles to produce *"very fine whitish particles or granules."* (DX 17, I 89.)

The *"Scientific American"* published, in *1932,* described an Idaho process of spray drying potatoes to produce a powder; the article describes how the particles looked under a microscope--"tiny round particles appearing under the microscope much like puffed grains of wheat." (PX 11, III 281.)

Thorpe's Dictionary of Applied Chemistry (1929 Ed.) (DX 17 I 213-223) published in much detail the properties of different sources of vegetable starches including the amounts present, the measured granule sizes and the various temperatures at which different starches gelatinize.

The art prior to him shows that Faitelowitz was a latecomer in a long line of investigators who had patented or published detailed information of the nature of vegetable cells, the nature of starch grains, drying temperatures, gelatinization temperatures, methods of separating vegetable cells and producing dehydrated vegetable granules,

including expressly potato granules. There was and is nothing pioneer or basic about Faitelowitz.

Plaintiff argues that this antecedent art is valueless because (so *Templeton says)* none of it succeeded in putting a dehydrated potato powder on the market--but Faitelowitz had not succeeded even after twenty-five years.

3. Because of fatal indefiniteness.

This Court aptly described the Faitelowitz patent in two of its earlier decisions. In *Kruger v. Whitehead* (CCA 9 1946, 153 F.2d 238 at 239), This Court said:

> "The patent does not inform persons familiar with the art how to utilize the patent. They are left to make their own selection of material and their own experiments to practice the invention. Complete disclosure is the price paid for the patent's temporary monopoly. The truth is that all the patentee had was an idea that the use of a solvent ink on an identification card would tend to prevent counterfeiting. *Mere ideas are not patentable; it is the means for carrying the idea out that is patentable."* (Emphasis added.)

It is difficult to find more apt language than the above unless we read *Craftint Mfg. Co. v. Baker* (CCA 9 1938, 94 F.2d 369 at *373*) where This Court said:

> **"This is not a disclosure of a process, but a mere suggestion of a process not disclosed."** [citing cases] (Emphasis added.)

Both the disclosure and claim 1 of Faitelowitz *embrace* potatoes and *other "starch containing vegetables."* Templeton testified (T 1633):

> "Q. *Isn't starch containing the same as farinaceous* as you have used it?
>
> A. I am a little doubtful on that, Mr. Beale, because *in this proposal* [Faitelowitz] *he enlarges the*

> *scope,* or tries to, *very considerably,* and he alters the starch containing--*now, starch containing could embrace products which would not qualify as farinaceous. I think there are not many things that don't contain starch,* other than meat."

At the threshold the patent is fatally broad in subject matter. It does give one example of cooking whole potatoes and gives a cooking temperature. It is impossible to determine conclusively whether the cooking temperature is the temperature of the potatoes or of the environment in which the potatoes were cooked.[18]

All other temperatures are merely stated as the upper limits of an undisclosed temperature range. *Nowhere does the patent supply any temperature at which any drying is performed.*

The patent gives (at page 1 column 1 lines 44, 45) a direction to *pre-dry potato pieces "until* they have *lost at the most about 60%* by weight *of their initial water content." This is* the *maximum* water loss, *not a clear expression of a range of moisture loss.* Claim 1 of the patent has the same maximum limitation. But the patent also gives (at page 1 column 2 lines 49, 50) a conflicting direction to pre-dry the pieces until a "stage is usually reached when *the potatoes have lost about 50 to 60% in weight calculated on the initial weight of the raw potatoes.* Claim 4 in suit superimposes this same moisture loss on the lesser moisture loss of claim 1.[19]

The two directions for the removal of water from potato pieces *(before* "crushing or grating" them)[20] are in direct conflict and cannot

[18] This same doubt exists as to every other temperature mentioned in the patent.

[19] Defendant submits that a percentage of the water content is obviously less than the same percentage of the whole potato, which contains solids plus water.

[20] Defendant mashes before removing water, contrary to the "essential" requirement of Faitelowitz that the reverse order be followed (PX 1, I 6, col. 1, lines 29-34).

be reconciled. Templeton resolved the conflict by ignoring the direction of column 1 of the patent and adopting the direction of column 2 of the patent. This is convenient but it hardly explains away the circumstance that the moisture removal limitation in the description (which Templeton ignores) is the same moisture removal limitation which is incorporated in claim 1 in suit (and by reference in every other Faitelowitz claim in suit).

The manifest uncertainties and conflicts of directions apparent on the face of this patent and in the claims in suit are repugnant to the requirements of 35 USC §112. The Trial Court did not find Faitelowitz to be invalid (although he might properly have done so). Defendant does not contend for a mandate of invalidity respecting Faitelowitz (in the absence of any findings thereon by the Trial Court).

Defendant does contend that any patent (and any patent claims such as Faitelowitz') which ignores the statutory requirements of definiteness should be strictly construed and given no range of equivalents. The Supreme Court has ruled:

> "Certainly if we are to be consistent with Revised Statute Section 4888, *a patentee cannot obtain greater coverage by failing to describe* his invention, than by describing it as the statute commands." *Halliburton Oil v. Walker,* 329 U.S. 1 at 13; 67 S.Ct. 6 (emphasis added).

and

> "The claim is a statutory requirement prescribed for the very purpose of making the patentee *define precisely* what his invention is; and it is *unjust to the public,* as well as an evasion of the law, *to construe it in a manner different from the plain import of its terms."* *White v. Dunbar,* 119 U.S. 47 at *52* (emphasis added.)

E. The District Court Committed No Error In Finding That Faitelowitz Was Not Infringed

The Trial Court's findings (FF XVI and XVII--99 R 104, 105) that defendant had not infringed any of the Faitelowitz claims in suit and that Faitelowitz was not entitled to any range of equivalency were fully supported by the evidence and were based on sound decisions of This Court and of The Supreme Court. There is ample further evidence of non-infringement in addition to that particularized by the District Court. There is no "clear error" as to this patent.

VI. ARGUMENT AS TO VOLPERTAS

A. The Volpertas Patent Was Correctly Construed in Accord With Fundamental Principles of Law

This Court's recent decision in *Engelhard v. Research Instrument, supra,* recognized that method or process claims are not infringed unless all of the steps or stages of the process are used. Where the doctrine of equivalents is invoked, This Court has said in *Moon v. Cabot Shops, Inc.*, (CCA 9, 1959, 270 F.2d 539 at *543*):

> "[6, 7] The doctrine of equivalents gives to a patentee the benefit of his monopoly in every form in which it may be copied in the absence of manifest disclaimer, *but the range of equivalents can in no event be more than commensurate with the scope of the patentee's invention.* Etten v. Kauffman, 3 Cir., 121 F.2d 137, 140. In determining the permissible range of equivalents, *the court must consider the state of the prior art, the novelty and contribution of the claimed invention, the nature and extent of the differences between the patented and the accused devices, the scope of the claim of the patent and*

the limitations in it, and other surrounding circumstances. Long Mfg. Co. v. Holliday, 4 Cir., 246 F.2d 95, 100." (Emphasis added)

* * * * *

"[8, 9] It thus becomes necessary for us to analyze and construe the claims of the patent. In doing so, we are mindful of certain well-established rules of construction. *Claims of a patent must be construed* not only in the light of the specifications and drawings, but *also with reference to the file wrapper history.* Whiteman v. Mathews, 9 Cir., 216 F.2d 712, 715. That is, the claims of the patent must always be explained by and read in connection with the specifications and *in the light of definitions and admissions made by the applicant in the proceedings in the Patent Office.* Westinghouse Electric Corp. v. Hanovia Chemical & Mfg. Co., 3 Cir., 179 F.2d 293, 296-297. *And a claim must be read and interpreted with reference to claims which have been rejected. Claims which have been allowed cannot, by construction, be read to cover what has been thus eliminated from the patent.* Hall v. Wright, 9 Cir., 240 F.2d 787, 794." (Emphasis added)

The Trial Court correctly followed and applied these "law principles" in his findings.

B. Defendant's Processes, Which Were Fully Revealed, Show No Infringement of Volpertas

1. By Mere Inspection of Defendant's Processes

In its manufacture of dehydrated potato granules, defendant has used white potatoes grown in Idaho. We emphasize this because not one of the three patents in suit identifies the "potatoes." Defendant's process, except for the initial production in 1950-1951, has been essentially a

continuous process in which the raw potatoes travel progressively through the line and are operated upon at various stages of the process in a continuous manner to form a continuous stream of finished product. We emphasize this because Volpertas (indeed each of the three patents in suit) obviously contemplates a batch process, in which the various operations of the process are performed on a limited amount of vegetables which are cooked as a batch, and processed as a batch, to produce a batch of finished product.[21]

There have been progressive changes and improvements in defendant's processes (T 77-79, 88-91, 98, 116, 387-401). Most of the steps of defendant's processes are shown on PX 6 (PX I-181 - 183) and shown and explained in PX 5 (PX I 130-180) and PX 14 (PX III 328, 329). Plaintiff seems to place most emphasis on PX 6 so we shall describe defendant's processes illustrated thereon, using italics to emphasize the points of difference between Volpertas' claims 3 and 7 and defendant's commercial processes.

PX 6 shows that the raw potatoes are peeled by a caustic or lye peeler, then washed, then conveyed to an inspection station where the potatoes are trimmed of bad spots. Then the potatoes are graded in size and, depending upon the size, may or may not be sliced. The sliced or graded potatoes are *washed to remove free starch* and then are steam cooked. A water cooking step has been used since about 1954, which changes the potato physically and chemically (T 77-79). The cooked whole potatoes or slices are *then conveyed directly to a pair of mashing rolls in which the potato pieces are mashed while quite hot. The hot mashed potatoes are then conveyed to mixers and are mixed with dried potato granules* (variously termed "seed" or "add-back"). *From the*

---

[21] Volpertas mentions "continuous" but periodic additions or withdrawals from a hermetically sealed vacuum cylinder is *discontinuous or batch.*

mixers the mixed mash and seed (referred to on PX 6 as "a moist granulated product" having a moisture content of 35 to 38%) *is conveyed to equalizing bins and from the equalizing bins the moist product is conveyed to pneumatic driers, which discharge into a cyclone collector from which a product is continuously discharged.* This product which has a moisture content of 12% to 14% is then sifted to size grade it, *part of it returned as seed or add-back* and *another part of it is further dried in bone driers to produce the finished product of approximately 6% to 7% moisture.*

At about 1955-1956 the *mashing rolls* (shown under the numeral "2" on PX 6) were removed and *replaced with a pug-mill in which the cooked potato pieces were simultaneously mashed, while hot, in the presence of the seed or add back material* (T 86, 88, 89).

The various *temperatures* of defendant's potatoes *at the time they were mashed in the mashing rolls were in the range of 140° F. to 180°F. and preferably 160° F. to 170° F.* (PX 5, II 156) (T 83). These temperatures were slightly lower than the temperatures of the potatoes, or potato pieces, as they emerged from the cooker in defendant's process. *When defendant used the pug-mills, the potatoes were charged directly to the pug-mill at temperatures of 170° to 205° F. without any cooling* (PX 5, II 156).

The evidence upon which the foregoing condensation of defendant's processes is based is sufficient to show that at all times between the commencement of defendant's processes in 1950 and the Trial, the following is true:

> *Defendant (1) cooked potato pieces, (2) mashed the potato pieces while hot, (3) predried the mashed potatoes while hot*[22] *by admixture with dried potato product* (this predrying was performed without added heat from any source

---

[22] In defendant's pug-mill operation after 1957 defendant mashed and mixed the potato pieces with the dried product while hot.

and was carried out to a point where the admixture contained from 30 to 40% moisture) *and* (4) thereafter *dried the admixture by atmospheric drying.*

2. By comparison with claims 3 and 7 in suit

To emphasize the non-infringing differences between defendant's process and the Volpertas' claims in suit, defendant has reproduced them in the Appendix hereto using bold-face type to show the *non-infringed* steps of the *claimed* process.

The language of each claim unmistakably requires the following sequence of steps:

(1) pre-dry *the potato pieces* (the same pieces that were initially cooked) *in the absence of mechanical pressure thereon* (on the pieces) *until the initial weight of the potato mass* ("mass" has no antecedent except cooked potato pieces) *has been reduced by about one-half;*

(2) *then cooling the potato mass* (the cooked potato pieces of reduced weight);

(3) *then mechanically converting the same into a moist powder* (mechanically *mashing* the pre-cooked, pre-dried and pre-cooked potato pieces);

(4) *then finally drying the moist powder* (formed from pre-cooked, pre-dried, pre-cooled and then mashed potato pieces) *under moderate heat and in vacuo* (in a hermetically sealed vacuum dryer).[23]

---

[23] Claim 3 additionally specifies that *the pieces* be cooled to 10° C. (50° F.) while claim 7 additionally requires that several *batches* of product be collected for final drying. Neither of these steps is to be found in defendant's continuous processes.

Comparison of these claims with defendant's processes emphasizes the correctness of the Trial Court's finding of non-infringement.

3. **By the clear language of the patent disclosure.**

The language of the Volpertas patent itself makes the best argument in support of the Trial Court's findings that, in the Volpertas process claimed in claims 3 and 7 thereof, the predrying is to be accomplished by heat (FF XX-99 R 108). It states (PX 2, I-41):

> "According to the present invention *predrying is resorted to under heat and without agitation* to reduce the water content of the potatoes to extent such as to permit the subsequent drying operation to be performed under heat and vigorous agitation * * *." (Col. 1 lines 34-39)

> "*The potato pieces are now predried preparatory to subdividing them into moist powder.* This predrying operation is carried on until the potato mass has been reduced to about one-half its initial weight by loss of water. *In this pre-drying operation it is important to avoid excessive agitation or pressure upon the potatoes.* Subject to this precaution *the predrying may be conducted under controlled heat* preferably though not necessarily, with the application of vacuum." (Col. 2 lines 33-43)

On page 2 of the patent (PX 2, I 42) it states:

> "*Alternatively the cooked potato pieces may be predried without vacuum preparatory to reducing the same to the moist powder.* In such operation *they are* desirably *laid in a* suitable *dryer through which is passed a current of air,* not necessarily completely dried air, *which is heated to desirably about 50° C.*" [132°F.] "*During such pre-drying operation, the potatoes*

are frequently or constantly moved, but *not subjected to mechanical pressure*. After the predrying treatment *cooling may be effected in the same dryer* by passing cool instead of warm air therethrough.

"*The step following the pre-drying* above set forth, whether performed with or without vacuum, *is mechanically to convert the mass into a moist powder. Before this is done, it is desirable to cool the same* down further as by exposure to the open air, if the climate is sufficiently cold or by pre-chilled air, *at a temperature preferably not higher than 10°C.*[24] *the mass may be subjected to mechanical pressure to convert it to a light moist powder* without rendering it pasty." (Col. 1, lines 14-36.)

It further states:

"The moist powder is now subjected to the *final drying* operation, *desirably in the same cylinder* used in the predrying. This operation is desirably conducted *under moderate heat, desirably at about 30°C.*[25] *under vacuum* and with vigorous stirring * * * preferably until the powder has only about 12 to 15 per cent of water content." (Col. 1, lines 61-69)

The identity of the process claimed in claims 3 and 7 of Volpertas with the process described in the illustrative example quoted above is readily apparent. The differences between Volpertas' illustrative example and defendant's processes are also self-evident.

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[24] 10° C. is 50° F.

[25] 30° C. is 84° F.

C. Claims 3 and 7 of Volpertas Must Be Strictly Construed

1. Because of file wrapper estoppel

Here, as with Faitelowitz, plaintiff seeks to ignore the plain import of the claims and to stretch them beyond their clear meaning by invoking the doctrine of equivalents. In essence *plaintiff contends* that *heat drying potato pieces*, in the absence of mechanical pressure, *until the pieces have lost fifty per cent in weight*, then *cooling the pieces*, then *mashing the cooled pieces, is the same as mashing the pieces while hot* [without additional heating] *and mixing the hot mash with dried potato powder*, i.e. *the add-back step*.

Unfortunately for plaintiff the history of the Volpertas patent and the wholesome doctrine of file wrapper estoppel combine to destroy plaintiff's case. The Trial Court correctly so found.

The Volpertas patent was based in part on each of two earlier Volpertas applications. For convenience the parties have designated the two earlier Volpertas cases as V-1 and V-2, respectively, and the patented case as V-3. As is apparent *in the V-2 case Volpertas* therein presented and *relinquished claims which unmistakably and unrestrictedly were drawn to the add-back step*.

Plaintiff's contention of equivalency is squarely opposed by the rule:

> "Claims which have been allowed cannot by construction, be read to cover what has thus been eliminated from the patent." *Moon v. Cabot Shops, Inc., supra* at 543, citing *Hall v. Wright* (CCA 9) 240 F.2d 787, at *794*.

(a) By the "V-1" application

In October, 1937, Volpert filed a British application (DX 17, I-152) which was the antecedent of his U. S. application *234,261* (PX 2, I 46-55).

This U. S. application involved a process for forming a dry powder from farinaceous vegetables by drying the vegetables in illustrative drying apparatus at a temperature of about 50° C. The treated material was subjected during *predrying* to a *thorough crushing*, disintegrating, scraping and stirring action. The claims so stated (PX 2, I-53).

The apparatus to permit the treatment of the vegetables in the foregoing manner was illustrated at PX 2, I-55. It is very clear that the disclosure of this application required the *predrying of potatoes by the application of mechanical pressure* imparted to potatoes by the rolling and crushing element. During the prosecution of this application the applicant's attorney emphasized the importance of *crushing by pressure* in accordance with the teaching of this application (PX 2, I 60, 62-64).

Eventually every claim in this Volpert application was "finally rejected" and an appeal was taken to the Board of Appeals of the U. S. Patent Office (PX 2, I 71, 72). The viewpoint of the Patent Office in refusing a patent on this application was fairly expressed in the Examiner's statement at PX 2, I-74.

In due course, on or about December 28, 1942, the Alien Property Custodian vested this Volpertas application (PX 2, I-83) and in due course, the appeal to the Board of Appeals was dismissed without any decision on the merits by the Board of Appeals (PX 2, I-88). The dismissal of appeal operated as a final adjudication of unpatentability against Volpertas and gave rise to the application of the doctrine of *res judicata* as to the V-1 application, even though plaintiff contends otherwise.

In a situation, such as here, This Court recognized and applied the doctrine of *res judicata* when a patent applicant did not exhaust his right of administrative appeal. *Aetna Steel v. Southwest Products* (CCA 9, 1960) 282 F.2d 323, at *334;* cert. den. 365 U.S. 845.

(b) *By the "V-2" application*

On February 17, 1938, Volpertas applied for a French patent (DX 17, I 194-198)[26] and thereafter filed in the United States Patent Office application No. 254,739. These two disclosures were essentially identical. The file history proceedings in the U. S. application are shown in PX 2, I 100-104. The proposal of this application was to prepare a dry powder from vegetables, containing starch, *by mixing the cooked vegetables with a suitable quantity of dry powder, and treating this mixture in a heated drum provided with a stirring device.* The application states that an essential feature of the invention consists in the fact that the mixture of cooked vegetables and dry powder is treated *"in vacuo."* (PX 2, I-101).

The application contained an example in which 32 kilograms of cooked potatoes were mixed with 8 kilograms of dry powder to obtain 16 kilograms of dry powder. The application then stated:

> "In the example which has just been described it was assumed that the quantity of dry powder added to the cooked potatoes was 25% by weight. It is, of course, understood that *this proportion is only given by way of example* and that *it may vary from one case to the other, according to the nature of the vegetables treated.*" (Emphasis added) (PX 2, I-102)

In this V-2 application there were three original claims (PX 2, I-103). Claim 1 was directed to the add-back process and contained no limitation as to either the temperatures or pressure under which the process was performed. In original claim 2 the process was required to be performed in a "total vacuum" while in claim 3 the process was performed in a "partial vacuum."

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[26] This French Patent was patented (delivre) in *March* 1939 and was published in *June* 1939 early enough to anticipate Rivoche.

In due course the original claims were rejected and rewritten (PX 2, I 105, 106, 131, 132). New claims 4, 5 and 6 were each directed to a process of performing the add-back steps in the making of a dry powder without any reference to whether the process was being conducted under atmospheric or vacuum conditions. New claims 7 and 8 (PX 2, I-132) were product claims in which Volpertas attempted to claim the product of his process as a new product.

Also in due course, claim 4 was voluntarily canceled and claims 5 to 8 were finally rejected (PX 2, I-117) and an appeal was taken to the Board of Appeals of the Patent Office (PX 2, I-118). The position of the Patent Office with respect to this Volpertas application, and to the claims on appeal, was stated (PX 2, I 120-122). Thereafter, title in this application was also vested by the Alien Property Custodian (PX 2, I-142).[27] Here, too, the appeal was dismissed (PX 2, I-150) and the Patent Office refusal of claims 5 to 8 covering the process and product of the add-back process became final and *res judicata* against Volpert. *(Aetna Steel v. Southwest Products, supra.)*

(c) *In the "V-3", or patented, application*

On January 1, 1942, Volpertas, having apparently come to the United States, filed an application (PX 2, I 161-179) which was a composite of additions to, and deletions from, each of the prior Volpertas applications. This new application was filed with eight claims (PX 2, I 174-177). All of these claims were directed to a process. Volpertas had obviously abandoned any attempt to obtain a patent on a product. The new application contained no drawings such as in the earlier V-1 application. *Every original claim in this new Volpertas application* required *that, in part, the process be performed either by applying "vacuum,"*

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[27] The actual vesting orders for the V-1 and V-2 applications (as well as the Faitelowitz patent in suit) appear in DX 16, I 31-34.

"under vacuum" or *"in vacuo."* This was completely consistent with the statement in the earlier V-2 application (PX 2, I-101), that treatment *in vacuo* was an essential feature of the invention.

In due course, two of the original claims were held to be allowable while all of the remaining claims were rejected (PX 2, I-180). Thereafter most of the claims of the application, and expressly *including claim 3* thereof, which is now claim 3 of the patent in suit, *was amended to specify that the cooling was carried out to a temperature in the order of 10°C.* (PX 2, I-43, at line 2, and 182). In contending for the patentability of the claims which then stood rejected, the attorney (PX 2, I-184) called attention to the temperature limitation of 10°C. which had been added to the claims. He also emphasized the *"critical character"* of the claimed steps and made the following statement:

> *"To accomplish the result, applicant guards against mechanical pressure in the early stages of the drying until* the moisture content has been reduced to about half the initial weight. At that stage he cools the mass to a temperature in the order of 10°C. and under that condition he is able to reduce the mass to a moist powder by the application of mechanical pressure."

The limitation of performing the process "in the absence of mechanical pressure" was conceded in the file to be a "critical limitation." The foregoing emphasizes that the limitations of claims 3 and 7 in suit were deliberately adopted by Volpertas to describe the differences thereof over the "crushing," or mashing, procedure of his V-1 case and the "add-back" procedure of his V-2 case.

The Trial Court's findings that Volpertas' acts giving rise to file wrapper estoppel, against Volpertas and plaintiff, as to claims 3 and 7 in suit (FF XX-XXIII 99, R 107-110) are correctly applied as to law and fully supported by the V-1, V-2 and V-3 cases, themselves.

2. Because of prior art.

The prior art requires a narrow construction of claims 3 and 7 of Volpertas. His broad add-back claims 1, 4, and 5-8 were refused in the V-2 application 254,739 principally on *Brüne* patent 1,304,845 (PX 2, I-212). This 1916 patent revealed a process of drying vegetables, including potatoes, by mixing previously dried vegetables with the vegetables to be dried and eliminating moisture from the mixture by pressure.

Defendant has presented prior art (more pertinent than Brüne) which was not cited by the Patent Office against Volpertas (or against Rivoche). This Court has held:

> "Even one prior art reference, which has not been considered by the Patent Office, may overthrow the presumption of validity, and, when the most pertinent art has not been brought to the attention of the administrative body, the presumption is largely dissipated." (Emphasis added.) *Jacuzzi Bros., Inc. v. Berkeley Pump Co., et al.*, (CCA 9, 1951) 191 F.2d 632 at *634*; see also *Jaybee Mfg. Corp. v. Ajax Hardware Mfg. Corp.*, (CCA 9, 1961) 287 F.2d, 228 at *229*.

If that be good law — and defendant submits that it is — it follows equally that "when the most pertinent art has not been brought to the attention of the Patent Office" the patent must be strictly construed if not also invalidated.

The *1907* French patent to *Steffen* [DX 17 (translation) I 163-170] discloses mixing raw potatoes in any shape, including *mashed,* with dried potato particles of the same size, letting the mixture reach moisture equilibrium and then drying the mixture by hot air or steam. Proportions of 100 parts of dry to 300 or 400 parts of wet potatoes are stated. While the translation describes the product as "fodder," at PX 2, I-169, the patent states that the product has the properties of

cooked potatoes and may be used for human consumption, with or without mashing. This is a clear disclosure of *add-back applied to potatoes.*

The *1929* French patent to *Jahn* [DX 17 (translation), I 174-177] recognized that "starch is a body very sensitive to heat which can only be dried at a *moderate heat,* of up to about 52°C. (125°F.)." It recognized difficulties in vacuum drying, but in doing so it taught the antiquity of vacuum drying. Jahn recognized that dry starch is less sensitive to heat as it becomes drier. The patent then discloses the add-back process of admixing dried starch with moist starch and the mixture thereafter dried by steam heated surfaces. As much as 1/2 to 9/10 *of the dried product* is brought back for admixture with the moist material. The more sensitive the material (or difficult to dry) the larger the proportion of dry which is added back. The water content of the mixed material going to final drying may be "lowered to 22 to 24%." The patent teaches that the add-back process may be applied to "other similar substances" in addition to starch. The Jahn patent claims add-back broadly.

The *1930* German patent to *Sprockhoff* [DX 17 (translation), I-211, 212] discloses an improvement in the drying of starch by mixing 2000 parts of dry starch (20% moisture) with 1300 parts of wet starch to produce a mixture having 27.3% moisture and drying this mixture at low temperatures 45°C. to 50°C. (113°F. to 122°F.). The *Sprockhoff* patent claims add-back broadly followed by final drying at a "moderate temperature."

The doctrine of equivalents is elastic - but it must stretch in both directions. If claims 3 and 7 are to be stretched to cover defendant's predrying by add-back with mashing rolls or pug rolls then these claims are invalidated by *Steffen, Jahn* and *Sprockhoff.* That which infringes if later invalidates if earlier; this is particularly so when the great

extent of knowledge revealed by the art antecedent to Faitelowitz, *supra,* is considered.

D. Other Limitations of Volpertas' Claims 3 and 7 Are Admittedly Not Infringed.

Although the Trial Court's findings do not mention them specifically (FF XXIV, R 99, 110), there are at least two differences, shown by the evidence to exist, between defendant's processes and the claimed process asserted against defendant. *Neither pre-drying potato pieces in the absence of mechanical pressure thereon nor final drying "in vacuo" has ever been used by defendant.*[28]

During the inter-partes demonstration by defendant, at Caldwell, defendant demonstrated the mashing of cooked potato slices by mashing rolls and a double shaft mixer ("pug mill") [DX 47A, III-171 and (pictures) DX 47B, III-175, 182, 183, 188, 189, 190].

On the last day of trial Templeton reluctantly admitted (T 1605, 1606) that some mechanical pressure must be present to change potato pieces into a "mass" (mash). Templeton's admission was in accord with plaintiff's U. S. Department of Agriculture expert who testified that mashing cooked potatoes necessarily involves mechanical pressure and mashing by rolls cannot be performed "in the absence of mechanical pressure" (T 320).

During the defendant's inter partes demonstration at Caldwell, defendant demonstrated the several forms of atmospheric driers which defendant had used in final drying. The purpose of this was to show that defendant had never used a vacuum drier or dried *"in vacuo"* as required by Volpertas [DX 47A, III 161-165; DX 47B, III 181, 184-187].

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[28] Templeton admitted, at T 527, "I don't know what vacuum means."

Again on the last day of Trial Templeton finally admitted at T 1607, 1608:

> "Q. As you were testifying about this Volpertas Patent, you related it generally to Defendant's operation as illustrated in the chart, Plaintiff's Exhibit No. 6, did you not?
>
> A. Yes.
>
> Q. Will you point out on this chart any place where there is employed a vacuum drying cylinder?
>
> A. There is no vacuum drying cylinder of the type *Volpert here and elsewhere in this specification apparently had in mind in the Defendant's Plant.*" (Emphasis added.)

Templeton's admission was in accord with the testimony of plaintiff's other experts Olson and Harrington who testified that defendant's several successive types of atmospheric driers were not vacuum driers, or were not used as vacuum driers (T 274, 275, 303, 306-308).[29]

It is clear that defendant did not infringe Volpertas' claims 3 and 7 within the clear normal meanings of the terms used therein. If Volpertas had special definitions for such terms he failed to reveal them clearly in the manner required by Statute (§ 112, 35 U.S.C., or former R.S. 4888) and the Trial Court, correctly, so found.

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[29] Other evidence in this regard appears at PX 5, II 133, 134, 142, 172; T 104, 107-110, 114, 116, 120, 253, 258, 1134-1136, 1142-1146, 1158, 1180-1184.

E. The District Court Committed No Error In Finding That Volpertas Was Not Infringed

The Trial Court's findings (FF XIX to XXV, 99 R 107-110) that defendant had not infringed either of Volpertas' claims 3 and 7 in suit, and that Volpertas' acts, shown in the file histories of the "V-1," "V-2" and "V-3" patented application, established file wrapper estoppel were fully supported by the evidence and were based on sound decisions of This Court and of The Supreme Court. There is ample further evidence on non-infringement in addition to that particularized by the District Court. There is no "clear error" as to this patent.

VII. ARGUMENT AS TO RIVOCHE

A. Claims 16 and 17 Cannot Be Valid on Any Basis

1. The claims are "interlopers"

Claims 16 and 17 were injected into the Rivoche application in 1950 as the result of a coldly calculated, but fortunately transparent, scheme to monopolize for plaintiff what Volpertas had surrendered in his V-2 application, and patent. To further this scheme plaintiff ignored the vested rights of the public, violated all principles of equity and violated nearly all of the patent statutes.

Plaintiff's Main Brief criticizes Mr. Simplot for never writing letters. Defendant sincerely thanks Mr. Templeton for being addicted to writing. Templeton's letters, while not always consistent, are very revealing. They make it easier to determine what Templeton had in mind ten or twenty years ago, than does his parol testimony at the trial.

Almost immediately after leaving Idaho in March 1949, Templeton wrote, from San Francisco, a letter of March 8, 1949 (PX 8, III-42). With this letter Templeton sent an unsigned *proposed agreement* (PX 8, III 43-46), and *"Explanation of U.S.A. Patent Position"* (PX 8, III 47-49), certain *proposals for laboratory work* (PX 8, III 52-53) *proposals*

for Commercial Operation (PX 8, III 55-56) and a dissertation on *Sales Policy* (PX 8, III 57-58). To avoid extensive quotations defendant has reproduced the foregoing in the appendix to this brief.

Templeton in this March 8, 1949 document ascribed to *Faitelowitz* (1) reduction of water content by "50% of the original weight" (by pre-drying) and (2) "preliminary drying by heat" [PX 8 at p. 47].[30] Templeton ascribed to Volpertas the add-back step (which is what Volpertas originally taught but does not claim).

Lastly, Templeton defined the *Rivoche* contribution as overcoming the disadvantage of the add-back step by freezing the cooked potato and removing water therefrom by "centrifuge or pressure." Templeton then said:

> "By these means, *Rivoche* was able to reduce the water content *without heat*[31] *and without admixture*[32] and obtain the damp powder *without the foregoing disadvantages* and he *proposed the use of dry admixture only as a supplementary step*, as it were, for those occasions when the mechanical methods did not quite eliminate enough water for the final drying." (Emphasis added.) (PX 8, III-48)

With Templeton's foregoing description of Rivoche, defendant is in complete agreement. In the shorthand of this art Rivoche was proposing the "freeze-squeeze" process with only a little "supplementary add-back" when the freeze-squeeze was not sufficient of itself. That is the most that Rivoche described in his 1939 British[33] and his 1948 U.S. patent applications. That is what the file wrapper of the Rivoche U.S.

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[30] This is precisely what the Trial Court found.

[31] Thus avoiding Faitelowitz' process.

[32] Thus avoiding Volpertas' V-2 process.

[33] Defendant does not admit that the 1939 British applications disclosed this much.

patent application shows he was describing *and claiming* from February 1948 until 1950 (PX 3, II 12-72).

On December 7, 1949, Templeton wrote a letter to Kueneman, defendant's Research Director, saying that "the Volpertas proposal must give way to Rivoche on quality" and he, Templeton, must convert three of his plants from "Volpertas" to "Rivoche" (PX 8, II-143). This sounds innocent enough for, in the light of Templeton's March 1949 dissertation, Templeton seemed to be saying that the "freeze squeeze" method was better than the "add-back" method.

What Templeton was really saying was that a decision had been made to shift emphasis (in the Rivoche patent application) from the old Volpertas add-back to a new Rivoche add-back concept. New patent counsel appeared in the case (PX 3, II-72) and an amendment which made at least three significant changes in the Rivoche disclosure was presented in January 1950 (PX 3, II 73-80).

Thereafter, without any further action by the Patent Office, Rivoche presented a supplemental amendment on June 28, 1950 (PX 3, II 82-88). This supplemental amendment made further significant changes in the description, canceled all of the then existing claims 21 to 58 and replaced the canceled claims with new claims 59 to 77. Rivoche pointed out that claims "74 and 75" (which became claims 16 and 17 in suit) were "patterned after claims 1 and 2 of the Rendle patent" - namely, *U. S. Patent 2,381,838 of August 7, 1945* (DX 17, I 134-136).[34]

The Patent Office, in an astonishing display of in-expertise, accepted the ex parte representations of priority claimed for Rivoche and granted the patent in suit without the inter partes priority determinations required by statute. (35 USC § 135) The patent, as granted,

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[34] The ramifications of the changes and distortions of the Rivoche patented application have been presented in comparative tabular form in pages 44a and 45a of the Appendix.

contains some 19 claims all but two of which (the claims in suit) cover a process of cooling or freezing cooked vegetables, namely the "freeze-squeeze" process.

The two claims in suit are, as a court aptly said in similar circumstances, *interloper* claims. *Cleveland Gas Burner v. Am. Heater and Appliance Co.*, (CCA 8) 38 F.2d 760 at *763, 764*.

> "It is like the cowbird's egg deposited in the nest of another bird. It simply 'does not belong.'"

2. The "interloper" claims violate statutes and controlling principles of law

The pre-1950 "invention," if any, of Rivoche was, as aptly described in 1949 by Templeton, "freeze-squeeze." Templeton forgot himself during the Trial and admitted that freeze-squeeze was the *principal* contribution of Rivoche (T 231-232). Claims 16 and 17 of Rivoche[35] are far broader than that concept - "freeze-squeeze" is omitted and "add-back" is *the* primary step, not *a* supplemental one.

This violates *Kemart Corp. v. Printing Arts Research Labs, Inc.*, *supra*, at *629, 633*:

> "a patentee's broadest claim can be no broader than his actual invention . . ."

The "interloper" claims of Rivoche were inserted by a 1950 distortion of the disclosure of his then pending application and the insertion of a new concept - *new matter* - therein. New Matter is expressly prohibited by statute, 35 U.S.C. § 132, last sentence.[36] It presents in this case the same *"trilemma"* which This Court recognized in *Aetna Steel Products Corp. v. Southwest Products Co.*, *supra*, at page *334*.

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[35] These claims are reproduced at page 40a of the Appendix hereto.

[36] Reproduced, Appendix page 21a.

The Rivoche claims in suit are, on mere inspection of the words thereof (Appendix page 40a), vague, indefinite and ambiguous. They violate the statutory requirement of claiming distinctly and with particularity (35 USC § 112) which is reproduced in Appendix page 20a hereof.

Consistent with *Halliburton Oil v. Walker, supra,* at page *13*, a patentee cannot obtain greater coverage by failing to describe (or distinctly claim) an invention than by describing it as the statute demands.

The "interloper" claims of Rivoche were added to his application eleven years after he first sought a British patent. Between September 1939 and June 1950, World War II was fought and ended and a substantial war-time dehydrated potato industry was developed in Great Britain and this country by others than plaintiff. In addition to the Faitelowitz and Volpertas patents[37] a very impressive body of information was published and entered the public domain. Examples of this are found generally in PX 11 (particularly the designated portions thereof) and in DX 34, III 8 to 127.

The effect of plaintiff's 1950 distortion of the Rivoche freeze-squeeze concept was to withdraw from the public domain much that had been freely acquired.[38] The Supreme Court said in the leading case of *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.*, 340 U.S. 147, at *152*; 71 S.Ct. 127, at *130:*

> *"The function of a patent is to add to the sum of useful knowledge. Patents cannot be sustained when,* on the contrary *their effect is to subtract from former resources freely available to skilled artisans."*

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[37] The United States patents *and* their foreign counterparts.

[38] Defendant is confident that This Court knows that information disclosed in a foreign patent which has no United States equivalent patent is as freely open to use in this country as information in any (non-patent) printed publication.

The Rivoche patent violates every one of these controlling doctrines, and more.

B. Even When Giving Rivoche a 1939 "Priority" Date Claims 16 and 17 Are Invalid

Rivoche applied for his patent in suit in reliance upon "The Boykin Act."[39] For the purposes of this appeal only two provisions of this post-World War II enabling Act are important. *First* the Act restated the then controlling Statute (R.S. 4887) which like present Section 112 required *identity of invention* with respect to the applicant's corresponding foreign and U. S. applications. *Second* the Act required the applicant to supply certified copies of his foreign applications relied upon. (Boykin Act, Section 1 at "(1)" - Appendix page 23a).

Rivoche asserted reliance upon his British application filed September 16, 1939 (PX 3, II 50-64), and his British application filed December 15, 1939 (PX 3, II 35-43). He supplied certified copies of these British applications as filed in 1939 and of one of them as refiled, in amended form, on July 18, 1946 (PX 3, II 44-49).

The Patent Examiner blindly accepted the representations for Rivoche that his 1939 British applications disclosed the subject matter of interloper claims 16 and 17. Defendant denies this and has consistently done so since 1949. The Trial Court made no express findings relative to Rivoche's priority applications; obviously he was so convinced of the invalidity of the two claims in suit as to find it unnecessary to reach that defense.

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[39] The entire Statute has been reproduced in the Appendix hereto at pages 23a to 28a.

For the purpose of sustaining the District Court's judgment as to Rivoche it is unnecessary for This Honorable Court to consider the sufficiency of Rivoche's priority claim. The claims are invalid for want of invention for the reasons stated by the Trial Court.

1. **By reason of prior art which antedates September 16, 1939**

The same prior patents which antedated Volpertas and Faitelowitz are anticipatory, for what they taught, with respect to Rivoche. Thus Rivoche was confronted with the existing skill of the art which showed that the add-back step was old in pre-drying starchy materials, including potatoes, and that variations in proportions of the moist and dry materials, to produce mixtures containing considerably less than 50% moisture, were known. This knowledge is explicit in the 1907-1930 patents to *Steffen*, *Jahn* and *Sprockhoff* which have been discussed in this brief *supra*.

In addition, the 1937 U. S. patent to *Credo* (DX 17, I 108-113) shows, in Figure 1 (I-108) of the patent, apparatus for the drying of starch cake by mixing wet starch with dry starch, thereafter drying the mixture and returning dried starch, clearly use of the add-back principle. The moisture content of the mixture of wet and dried starch is less than 50% as explained in this patent.

The August 8, 1939, patent to *Horesi* (DX 17, I 125-128) discloses, in the drawing (I-125) the mixing of wet and dry starch, the drying of the mixture, passing the mixture through a screen 17 and returning dried particles as an add-back for admixture with moist starch.

Plaintiff cannot effectively "brush-off" these prior art vegetable drying and starch-drying patents on the ground that they are not relevant to potato powder. The test of relevancy is the scope of the claims in suit. This Court will observe that claims 16 and 17 of Rivoche are not limited to potatoes - on the contrary they are broadly directed to

"cooked *starchy vegetable foodstuff*" with no further details of nature or particle size than "mass of the cooked vegetable."

The prior patents of *Faitelowitz* and *Volpertas* are also highly relevant. They relate directly to cooked potatoes, as well as other "starchy vegetables."

For the purpose of this argument any of the British, French or United States patents of Faitelowitz may be used. They have essentially similar disclosures and all three were both patented and printed prior to 1939 (PX 1, I 2, 3 and DX 17, I 150-151 and I 178-186). Faitelowitz shows, and plaintiff has conceded as much, a predrying to a moisture content which is both above and below 50%.

For the purpose of this argument certain of Volpertas' foreign patents are anticipatory in that they were both patented and published prior to September 16, 1939.[40] Volpertas obtained British and French patents on his "V-1" proposal (DX 17, I 152-154 and I 199-209). The V-1 patents of Volpertas show, what his abandoned U. S. application Serial No. 234,261 also showed, predrying to a moisture content which is both above and below 50%.

Defendant's expert, Dr. Jackson, established that when the various instructions of Faitelowitz and Volpertas (in his V-1 foreign patents) are applied as to the moisture content of partially dried potatoes, the pre-dried "damp powder" has a moisture content within a range which is both above and below 50% (T 1194-1203; DX 38, III 145-153).

For the purpose of this argument the Volpertas V-2 French patent is anticipatory to Rivoche since it was patented and published prior to September 16, 1939. This French patent (DX 17, I 194-198) shows the

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[40] The relationship, time-wise, of the various Faitelowitz and Volpertas patents to the Rivoche patent, is shown graphically in DX 21, II 24-25.

same example and the same instructions to vary the proportions between dry potato powder to cooked wet potatoes which were given in Volpertas U.S. application Serial No. 254,739 (discussed in this brief at page 38-39, *supra*).

The Volpertas V-1 and V-2 U. S. applications are themselves anticipatory to Rivoche within the doctrine of *Alexander Milburn v. Davis-Bournonville*, 270 U.S. 390, which has been codified in 35 U.S.C. § 102e (as the "Reviser's Note" to Section 102 shows in U.S. Code Annotated).

When the anticipatory prior art is matched against claims 16 and 17 of Rivoche (as it must be) the *lack of invention* demonstrated in these two claims is very clear. Within the standard of measurement which This Court expressed in *Wilson-Western Sporting Goods v. Barhart* (CCA 9, 1936) 81 F.2d 108, at *110 and 111*, and cases cited therein, the Rivoche add-back method was obvious. This Court's views on obviousness are in accord with the views expressed by The Supreme Court in *Sinclair & Carroll Co. v. Interchemical Corporation*, 325 U.S. 327, 65 S.Ct. 1143 (1945), which was cited and quoted by the District Court in his Memorandum Opinion. It is also in full accord with *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, at *566*, 69 S.Ct. 269 at *272* (1949).

2. <u>By reason of Templeton's admissions</u>.

In *Jungersen v. Ostby, supra*, The Supreme Court commented on an admission of "identity of principle" by the patentee. Here we have admissions of equal force. Templeton volunteered as to Rivoche (T 232):

> "I have always given him the very clear instruction as to the moisture range.[41] Whereas his copartners had been content with this reduction of 50 to at the most 60 per cent in the main; when you apply that to potatoes ranging from 75 to 85, *mathematically the range is pretty wide and Rivoche knocked off the top of the range. He said: 'No, not above 50 - 50 or below.'*"

That is not all. Testifying as to the moisture ranges disclosed by both Faitelowitz and Volpertas, Templeton said (T 1652-1653):

> *"I have agreed that Volpertas and Faitelowitz propose a damp powder which a certain moisture content of potatoes goes below 50 per cent."*

3. Because there is no presumption of validity as to Rivoche

Defendant directs the attention of This Court to the circumstance *that not one of the prior art patents referred to, supra, was considered by the Patent Office or called to the attention thereof* by Rivoche during the file wrapper proceedings of this patent. [The Volpertas patent in suit was cited but apparently was withdrawn on the representations for Rivoche that Volpertas was different because it showed "vacuum" for cooling and did not show temperatures as low as 4°C. (PX 3, II-67).] The presumption of validity created by 35 U.S.C. § 282 is "overthrown" and "dissipated" in this patent.

> "But further, a great many of the patents, which were brought to light in this lawsuit and considered by the Trial Court, had not been previously considered by the Patent Office. Even one prior art reference, which has not been considered by the Patent Office, may over-

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[41] This is an over-statement. The upper limit is "about 50%" and there is no lower limit in claims 16 and 17 or in the entire patent.

throw the presumption of validity, and, when the most pertinent art has not been brought to the attention of the administrative body, the presumption is largely dissipated. Such is the case here.

"The presumption of validity of administrative grant has been in recent years almost reduced to nullity in patent cases. The justice of the abandonment of this doctrine might be claimed because some absurd results have been reached by administrative bodies. However, no matter what defects there may be in administrative bodies or courts composed of experts, questions of fact should be settled in the trial tribunal, reversible only because of clear error." *Jacuzzi Bros. v. Berkeley Pump Co.* (CCA 9) 191 F.2d 632, at *634.*

"Generally, the action of the Patent Office in allowing the patent creates a presumption of validity. However, even one prior art reference which has not been considered by the Patent Office may overthrow this presumption. Mettler v. Peabody Engineering Corp. (9 Cir., 1935) 77 F.2d 56, 58; McClintock v. Gleason (9 Cir., 1938) 94 F.2d 115, 116; Jacuzzi Bros. v. Berkeley Pump Co. (9 Cir., 1951) 191 F.2d 632, 634. When the most pertinent art has not been brought to the attention of the administrative body the presumption is largely dissipated. France Mfg. Co. v. Jefferson Electric Co. (6 Cir., 1939) 106 F.2d 605; Jacuzzi Bros. v. Berkeley Pump Co., supra. The facts in the present case justify the invocation of such rules." *Jaybee Mfg. Corp. v. Ajax Hardware Mfg. Corp.* (CCA 9) 287 F.2d 228, at *229.*

C. The Rivoche Claims 16 and 17 Are Anticipated By Post-1939 Patents

The Trial Court did not expressly reach the question of the sufficiency of the Rivoche claim to a 1939 priority date. This Court need not reach the question unless it finds, contrary to the Trial Court, that there is *"unobvious" "invention"* in Rivoche. The assumption that the

September and December, 1939, British applications of Rivoche (PX 3, II 50-64 and II 35-43, in that order), collectively or individually disclose the subject matter of claims 16 and 17 of the Rivoche patent is contrary to fact. To avoid detailed discussion of these two British applications their disclosures have been tabulated and compared at Appendix pages 41a to 43a, *infra*.

Without engaging in detailed discussion of the September 1939 application its disclosure may be summarized as a proposal to dry an enormous category of foodstuffs, including green leafy vegetables and meats, by cooking the foodstuffs "without added water," then "cooling" and "mechanically removing the water" from the cooked, cooled foodstuff. A moisture removal range of from 45% to 75 to 80% is mentioned. For starchy materials a "preferable" figure of "no more than 50%," but for all "materials" "*usually* not more than 50% by weight of water," is given.

No example giving the drying of any foodstuff is given; no drying temperature is given, in short the disclosure is an encyclopedia of questions with no answers. We defy plaintiff to read the case and tell how to apply any add-back step to green vegetables or meats. Templeton could not tell (T 485, 486). Templeton's testimony on this British Rivoche "disclosure" went far in destroying his qualifications as an expert in the drying of all foods including meats. He thought "pemmican" was the name of an American animal (T 445, 446, 601, 605, 606), and he had never heard of "biltong" (T 973, DX 26, II-46). Yet pemmican, biltong, the dried potatoes of the Incas (T 673), ordinary smoked ham, dried peas, beans and corn are all squarely within the reach of this fantastic "proposal" of Rivoche.

The September 1939 Rivoche application is a perfect subject for the critical application of the sound legal principles applied in similar cases. *National Theatre Supply Co. v. Da-Lite Screen Co.* (CCA 7,

1936) 86 F.2d 454 at *455; Kruger v. Whitehead, supra;* and *Craftint Mfg. Co. v. Baker, supra.*

The December 1939 British application is not much better. The sole contribution of this otherwise vague and indefinite disclosure is to tell what Rivoche meant by "cooling" his welter of materials. Cooling was 4° C.[42] or below, to include freezing.

Neither of the two British applications of Rivoche, singly or in combination, complies with the requirements of Section 112, 35 U.S.C. for disclosure in "full, clear, concise, and exact terms" or "setting forth the best mode contemplated by the inventor for carrying out his invention." Neither of the two British applications would (even if in proper form) support a U. S. patent for claims 16 and 17 of the Rivoche patent in suit. Both applications merely invite the art to experiment in a vast field of dried products. They are, as stated in *Craftint v. Baker,* "a mere suggestion of a process not disclosed."

Defendant asserts that *Rivoche has no 1939 priority* and, lacking such, *must rely on the 1948 filing date* of his U. S. patented application for whatever it is worth.

The 1944 patent in suit to Volpertas is an exact anticipation of claim 16 of Rivoche. The Volpertas patent does not disclose the "sieving operation to disintegrate" called for by claim 17 of Rivoche - but then both of the British Rivoche applications are equally lacking in disclosure of such a sieve. However, the 1945 patent to Rendle (DX 17, I 134-136), does expressly disclose and claim such an operation. Indeed Rendle's claim 1 (I-136), is the very claim Rivoche pilfered in 1950.

Volpertas and Rendle anticipate and invalidate Rivoche claims 16 and 17 under the provisions of Sections 102a and 102b of 35 U.S.C.

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[42] 4° C. is 40° F.

Volpertas invalidates Rivoche for another reason. Section 102f of 35 U.S.C. invalidates an "invention" which the patentee did not invent. A valid patent can only be granted to "the original inventor." Plaintiff has freely conceded that Volpertas, not Rivoche, is the father of add-back.[43] The Trial Court's finding that Rivoche did not himself invent the subject matter of claims 16 and 17 is free of error (FF XXVII, 99 R 111, 112 - Appendix pages 13a, 14a).

D. The District Court Committed No Error in Finding That Rivoche Was Invalid

The District Court's findings that Rivoche was not an original inventor and that claims 16 and 17 were invalid for want of invention were free of error. *There can be no invention in remonopolizing the lower part of the moisture range which Faitelowitz and Volpertas each taught at an earlier date.*

The District Court could have found, also without error, that claims 16 and 17 of Rivoche were invalid by reason of "new matter" (Section 132), by reason of "indefiniteness" (Section 112), by reason of exact "anticipation" (Sections 102a and 102b).

VIII. TEMPLETON'S COURT ROOM DEMONSTRATION WAS A TACTICAL MISTAKE

Using a piece of laboratory apparatus so small he called it a "toy," Templeton demonstrated the *Faitelowitz method* and the *Volpertas method.*

Templeton succeeded in showing that the Faitelowitz method will work in the laboratory (defendant has never denied this). But in making the method work, Templeton demonstrated the complete lack of any

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[43] Defendant concedes that this is so when Volpertas and Rivoche are considered apart from all other prior art.

commercial utility in Faitelowitz. The predrying required most of an afternoon, the moist product was squeezed in a bottle and left overnight. Most of the next morning was consumed in drying, grinding and sifting the product. Even with this impractical consumption of time he got a mere thimbleful - 2 to 4 grams - out of a good sized Idaho potato.[44] If ever the old expression about a mountain laboring to bring forth a mouse applies anywhere it applied here.

In demonstrating the Volpertas method he made a product by the add-back step. Defendant has never denied that Volpertas disclosed the add-back step - defendant's contention has been that Volpertas *surrendered the step and failed to claim it in his patent.* Actually what Templeton was demonstrating was the subject matter of Volpertas' French Patent 842,651 (DX 17, I 196-198) – the "V-2" method.

While demonstrating the methods which Templeton ascribed to Faitelowitz and Volpertas he succeeded in completely destroying Rivoche. In his demonstrations of each of these methods which antedate Rivoche, Templeton carried the predrying steps of Faitelowitz and of Volpertas well below the 50% moisture figure which Rivoche later tried to preempt. Templeton succeeded in showing, as convincingly as defendant can argue, that claims 16 and 17 were highly obvious to a man of ordinary skill in the art. He made the invalidation of claims 16 and 17 by reason of Section 103 of 35 U.S.C. both proper and inevitable.

IX. ANSWERS TO APPELLANT'S BRIEF

A. Plaintiff Has Retreated and Narrowed the Real Issues.

Several general observations may be made concerning plaintiff's Brief relating to Appeal 18899. Plaintiff's brief is essentially argumentative with relatively few references to specific supporting evidence.

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[44] T 235-251, 309-311, 327-355, 1064-1070.

Plaintiff seems to have continued to retreat from the position alleged in its original complaint. There, every one of *39* claims in *four* patents was asserted against defendant. Here, only three of the eleven claims in suit are stressed in any particularity. Indeed, from plaintiff's statements at the foot of page 114 of its brief[45] it seems as though plaintiff is proposing "a deal" with This Court. Plaintiff suggests that if This Court will only hold Volpertas valid and infringed plaintiff will concede the obvious - namely that Rivoche is invalid. That narrows the issue to two claims, claim 1 of Faitelowitz and claim 7 of Volpertas. It also narrows the issue to questions of fact which were correctly determined by the District Court.

In another sense plaintiff has also retreated. The so-called contract case No. 18900 has from its inception been treated by plaintiff as a secondary afterthought. Before the District Court plaintiff gave first place and primary emphasis to the patent action — three-fourths of plaintiff's post-trial briefs were devoted to this case. Here the reverse is true; a mere one-third, and the last third, is devoted to Appeal 18899. This re-emphasizes the force of defendant's assertion to the District Court – plaintiff has no real expectation of sustaining the "F-V-R" patents in this infringement suit.

B. Plaintiff Now Relies on "Equities" and Not on Facts or Law

An ancient axiom has it that when both the facts and the law are against an advocate he should argue the equities. Plaintiff has evidently heard and heeded this advice. Without support of prior pleading in either plaintiff's complaint or reply to counter-claim and with no affirmative advocation thereof during trial, plaintiff now asserts in this

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[45] This statement continues on page 115 thereof.

case that defendant is licensed and therefore cannot contest the validity of the patents in suit.[46]

Entirely apart from the fact that the existence of any license is the fundamental question in Appeal 18900 and that the new assertion of license in this patent appeal comes at an inexcusably belated time, there is no merit in plaintiff's position.

Defendant would prefer to leave all arguments relating to a so-called license to its brief in Appeal No. 18900, where it belongs, but since the issue has been raised in this patent case, it must be refuted herein. Defendant's refutation will be limited as much as possible to the evidence of a technical nature which contradicts plaintiff.

Plaintiff cannot deny that no written license was ever entered into between the parties. The Trial Court's findings on this point are beyond dispute. Plaintiff therefore asserts an implied contract arising out of equitable considerations. But one who invokes equity must come into court with clean hands - plaintiff's are by no means clean.

Templeton testified that in 1945 he told Mr. Simplot to beware of the F-V-R patents and that he, Templeton, promised to give defendant first opportunity for license (T 175, 185, 186). Templeton would have to have possessed the prescience of an oracle to have known *in the fall of 1945:* (1) that Congress would enact the Boykin Act" in August *1946*, (2) that the Rivoche patent was going to be applied for in *1948*, and (3) that plaintiff was going to persuade the Government of the United States to part with some interests in the Faitelowitz patent in *1956*. What Templeton may have had was the "mental reservation" he acknowledged on October 12, 1949 (PX 8, III-133 at "1").

When Templeton first broached the matter of licenses in 1948, he limited discussion to the Volpertas patent and the (then) Rivoche appli-

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[46] Page 13 of Appellant's main brief.

cation. There was no mention of Faitelowitz or of an "exclusive" license. On the contrary Templeton was negotiating in Maine and had to return to this country the following January. This is explicit in his letter of November 18, 1948 (PX 8, III-34, 35).

C. Plaintiff's Hands Were Not Clean

At the time Templeton negotiated with defendant and performed some laboratory demonstrations in Idaho in early March 1949, he was already negotiating with R. T. French Company (T 682-684, 732). After his March 1949 visit to Idaho and before returning to England that month, Templeton negotiated with the U. S. Government in Washington, D. C., for potato drying in Maine[47] (T 681, 736, 737). He must have negotiated with the Hume interests in California. This is implicit in his letter of March 31, 1949 (PX 8, III 72, 73).

Notwithstanding these activities with others, Templeton offered defendant an *exclusive* license on March 8, 1949 (paragraph "1(h)," PX 8, III-44). This *exclusive license was soon retracted* in the Dean Edmonds draft (paragraph "8," PX 8, III 64, 65, last six lines; T 743), *but was reoffered* in December 1949 in the form of the "annotated Heads of Agreement" (reproduced as Appellant's Appendix pages 18a-21a). Templeton's dealings with others before and after the Idaho trip do not show clean hands.

But in March 1949, plaintiff did not own what Templeton offered to license. All title to the Faitelowitz patent was in the United States Government. The Volpertas patent was not assigned to the Templeton interests until *April* 8, 1949, and the assignment was not recorded for public inspection until *December* 21, 1949 (DX 16, I 59, 60). Templeton did own the pending Rivoche application but its then scope was lim-

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[47] Whether this Maine operation was the same covered in his November 18, 1948 letter, *supra*, he succeeded in concealing throughout the Trial (T 410).

ited to the freeze-squeeze process. In March 1949, Templeton had nothing to back up his offer of an exclusive license.

D. Plaintiff Supplied Nothing New and Useful in Templeton's 1949 Idaho Demonstration, or Thereafter

Templeton's March 1949 Caldwell laboratory "demonstrations" used 12 *baked* potatoes, *11* of which were *baked and frozen.* As to *Faitelowitz* he dried *"shreds of riced or broken pieces"* until they lost 50% or at most 60% of their initial weight and recommended further laboratory experiments on this proposal. As to *Volpertas* he used the "add-back" step and recommended laboratory work to see how *little dry powder was needed.* As to *Rivoche* he *froze and centrifuged,* or *froze and squeezed,* the potatoes and recommended a larger *laboratory centrifuge* for future work (PX 8, III 52, 53).

In his March 8, 1949 "Proposals for Commercial Production" (PX 8, III 55, 56), *Templeton advised defendant* that its commercial process *would "have to follow the teaching of Faitelowitz."* He elaborated to describe predrying of *riced potatoes* until they weighed 50% of their original weight then *grinding* the predried potatoes *by "percussion"* or *"impact grinder"* and *final drying in steam heated mixers.* There is no hint in this proposal of add-back or of the Rivoche freeze-squeeze.

Later in the spring Templeton sent to defendant a drawing of *a laboratory device* (DX 19A and 19B, II 12-15), and drawings and photographs of *a steam-heated mixer* (PX 12 and PX 13, III 318-327). That is all he supplied.

Some of this "information" supplied by Templeton was misleading and all of it was useless from a practical viewpoint.[48] The direction to follow the Faitelowitz process would have put defendant in the unique

[48] The suggestions which defendant did not follow or use in its commercial operations have been italicized for emphasis.

position of being the only potato processor in the world ever to practice that useless method.

Either Templeton was deliberately trying to mislead defendant or he did not know what he was talking about. The same may be said about his failure to recommend add-back to defendant.

In any event defendant never used anything that Templeton demonstrated, described, or supplied in 1949[49] *except the "add-back" step.* But that was *not new to defendant.* It had been repeatedly described in patents and publications which defendant possessed prior to March 1949 (DX 34, III 3 to 127, T 1048), and a commercial process which used the method had been seen and sketched in England in 1943 by Kueneman (DX 28A, 28B, II 63 to 65; T 980-984 and T 1032-1035).

What Templeton did supply was aptly characterized by a famous Englishman:

"Too little and too late."

The misleading and essentially useless "information" supplied by Templeton to defendant in 1949 is not adequate basis for a claim of unjust enrichment nor basis for a license "agreement" which is allegedly implied on "equitable" principles.

E. Plaintiff Was Guilty of Laches

Defendant pleaded this defense in this case, put in evidence to sustain it and briefed it after trial. The District Court made no finding in this case but expressly found plaintiff guilty of laches in the so-called contract case; on the same evidentiary basis. Since plaintiff invokes equity in support of its claim of "license" defendant reasserts its defense of laches.

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[49] Or thereafter.

At least as early as the potato season of 1950-1951, Templeton and his agent Scott had knowledge of defendant's manufacture of "Potato Granules" (DX 8, III 188, 189). At all times from and after August 1950 the Templeton interests had title to the Volpertas and Rivoche patents in suit. Suit herein was not filed until February 1959.

The only explanation which plaintiff ever offered for this *delay of eight years*, during which defendant was expanding its business, was plaintiff's desire to sue on all three patents. This it could not do because Faitelowitz was held by the Government. But as shown in this brief, *supra*, Templeton admitted that the three patents are mutually exclusive, certainly as to Faitelowitz (T 650-653, 783-789). There was no valid reason why plaintiff could not have sued on Volpertas and Rivoche, particularly while possessing knowledge that the Faitelowitz method was not being used anywhere in the world, including defendant's plants (T 564).

Plaintiff seeks to excuse its delay in not instituting divestment proceedings relative to the Faitelowitz patent by asserting inability to locate one Bunimovich. There are two answers to this excuse. Plaintiff's counsel recognized the need to institute divestment as early as June 10, 1949 (DX 8, III-110). Secondly, the 1936 British patent to Faitelowitz showed on its face that Bunimovich was a citizen of Venezuela (DX 17, I-150). Venezuela is not a very large country and it is precisely where Bunimovich was located. Plaintiff's delay between 1949 and 1956 with regard to divestment of Faitelowitz is itself inexcusable laches. Plaintiff's action on all three patents should be barred by laches. *Craftint Mfg. Co. v. Baker, supra,* at *374; Pearson v. Central Illinois Light* (CCA 7) 210 F.2d 352 at *356.*

F. Defendant Did Not Produce "Potato Granules" Between 1945 and 1950 Because There Was Not Sufficient Demand to Justify Production

Plaintiff has contended, and succeeded in convincing the Trial Court, that there was no evidence offered to explain why defendant did not manufacture dehydrated potato powder on a commercial basis before 1950.

The evidence is in the record. It shows that there was not a sufficient peace-time demand for the product to justify commercial production.

Templeton's dissertation on "Sales Policy" which was sent to defendant March 8, 1949, spoke of the "anticipated" total market and admitted that the quality of the product (produced in the United Kingdom - i.e. *his* product) had "not been good enough to hold steady and reliable trade amongst the highly discriminating domestic demand* * * *" (PX 8, III-57 and at III-58), said:

> **"It is quite clear that success in the present development generally is more dependent upon the solution of marketing difficulties rather than production problems* * * *"**

Templeton's agent Scott wrote defendant on August 23, 1950,

> "As you know, *the Army is in the market* for Instant Mix or Potato Granules Type IV and *with this business and* also considering *the potential consumer market,* believe the item has good *possibilities.*"

Plaintiff's witness Olson testified that after the Korean War started, the Quartermaster Corps' interest in dehydrated mashed potatoes stimulated work by the Department of Agriculture (T 301).

Templeton testified that he had known for some years how to make dehydrated pea granules and dehydrated yam granules but never went into production because *he* could not see a commercial market (T 495, 499, 500). Peas and yams are within the ambit of the disclosures in

each of the three patents in suit and are embraced by 9 of the 11 claims in suit.[50]

When defendant obtained an Army contract in 1950 defendant went into production at once, with no help from plaintiff, because of the urgency of the Korean situation (T 395).

Defendant went into production using the same add-back process which Kueneman had seen during World War II (T 980 to 984, T 1032 to 1035). This was long before the Rivoche British or United States patents were published.

In 1945, Rendle United States patent 2,381,838 was published. The patent clearly discloses preparing dehydrated mashed potatoes by the add-back method in which the mixture of mashed potatoes and dry granules contained 40 to 50% moisture. Yet plaintiff's position is that publication, by Rivoche, of the same method five years later received immediate commercial acceptance. This is an absurdity on its face. *The patented publication by Volpertas in 1944 led to no acceptance, immediate or later. Neither did the 1938 patented publication by Faitelowitz - this was "never" used.*

Yet plaintiff argues that Faitelowitz was a "pioneer" patent. If Faitelowitz was a pioneer he certainly did not blaze any trail which others could follow. His moisture removal directions are self-contradictory. His temperature directions leave unanswered the question of whether the stated temperatures are those of the hot vegetable or the temperatures of the air, surface or other medium which supplies the heat to dry it. His "best mode" of carrying out his process was useless.

None of the three patents in suit has the merit of immediate public acceptance before or after 1950. Defendant's lack of commercial

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[50] Only claims 3 and 7 of Volpertas are limited to "potatoes."

production prior to the Korean emergency was attributable to one thing, and *only* one thing - there was no market for the product. Defendant has the same explanation which was supplied by Templeton, who wrote in 1949 that *sales presented far more difficulty than production.*

G. Plaintiff Prays for the Impossible

Plaintiff's Main Brief asks This Court to hold valid and infringed one claim from each of the three patents in suit. To answer that prayer This Court would have to decide *de novo* the issues of validity of Faitelowitz and Volpertas, plural issues of validity of Rivoche which the Trial Court did not reach, and the issue of infringement of Rivoche, which is by no means conceded. That procedure is in violation of Rule 52a, FRCP. If This Court properly refuses to act *de novo* the alternative course would require remanding to the District Court for further findings and then further consideration on appeal.

On the contrary to affirm the decision below all This Court must do is to accept the completely correct findings of the Trial Court, adhere to the requirements of Rule 52a FRCP and applicable patent statutes, and follow a few decisions of The Supreme Court and of This Court. These decisions which are applicable and controlling, and most of which were adhered to by the District Court, are *Plastino v. Mills; Englehard Industries v. Research Instrumental; Moon v. Cabot Shops; Graver v. Linde, 336 U.S. 271; Kemart v. Printing Arts; Nelson v. Batson; Jacuzzi Bros. v Berkeley Pump; Jaybee Mfg. v. Ajax; Craftint v. Baker; Aetna Steel v. Southeast; Halliburton Oil v. Walker, 329 U.S. 1; Jungerson v. Ostby, 335 U.S. 560; and Great Atlantic & Pacific Tea v. Supermarket, 340 U.S. 147;* each cited and applied *supra* in this brief.

In the final analysis all of the issues of this case are compressed within the language of an old decision.[51] *Knight Soda Fountain v. Walrus Mfg.*, (CCA 7, 258 F. 929 at 931). The Court there said:

> "A patent is the creature of the statute * * * * *What is not claimed distinctly* in the invention *the public possesses. A patent is sustained not for what the inventor may have done in effect, but for what is pointed out clearly and distinctly in his open letter."* (Emphasis added.)

H. The Trial Court Lacked Jurisdiction Over Indispensable Parties

Some "puffing" from a patent promoter like Templeton is to be expected, but persistent exaggeration, contrary to fact, is discrediting. In 1949 Templeton wrote that the F-V-R "patents" had been sustained and recognized in England; during the trial the same assertion was made (PX 8, III-133; T 181).

On cross-examination Templeton finally admitted that *the only patent sustained* in England was the V-2 British patent of Volpertas (T 679, 680). [52] The Rivoche British patents were not sustained; nor was the Faitelowitz British Patent (T 679). Indeed Templeton admitted that his interests had never acquired title to the British Faitelowitz patent (T 677, 679, 680, DX 15, I 11 to 17, 21).

Defendant has always contended, and here asserts, that plaintiff never acquired sufficient interest in the U. S. Faitelowitz patent in suit to maintain suit thereon without joining one or more parties who were never joined (99 R 25, 26). Lack of jurisdiction cannot be waived even

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[51] See also *Simons v. Davidson Brick Co.* (CCA 9, 1938) 106 F.2d 518, at 522, 523.

[52] British patent 525,043 (DX 17, I-156, 157) like the Volpertas V-2 U.S. abandoned application claims the add-back step broadly.

though, as here, it has relatively little materiality where plaintiff's action has been completely dismissed and defendant has been granted injunctive relief.

The Faitelowitz patent in suit was granted after assignment of 75% interest in the patent to one Bunimovitch (DX 16, I-26). Thereafter, Faitelowitz assigned to Volpertas and Rivoche, jointly "his half interest" in the patent (DX 16, I 28, 29). These assignments purported to transfer 125% of the patent. In due course the Alien Property Custodian vested all 125% of the title to Faitelowitz' patent (DX 16, I 32, 33).

The patent expired May 31, 1955. Sometime during 1955 proceedings were instituted by Templeton, on behalf of Bunimovitch, Volpertas and Rivoche, to have title to Faitelowitz divested. In 1956 the U. S. Department of Justice issued return orders to Bunimovitch and to Rivoche and Volpertas. The Bunimovitch return order appears at DX 16, I-42, and the Rivoche, et al., return order at DX 16, I-43. *The Department of Justice by administrative order* gave Bunimovitch a 75% interest in the patent and gave Rivoche and Volpertas a joint 25% interest in the patent.

Between the date of grant of Faitelowitz patent in 1938 and the date of the return order in 1956 every document which purported to transfer an interest in the patent, including the two "return orders" expressly conveyed title to the patent *and the right to sue for past infringement.* This last statement includes an admittedly inoperative assignment made by Volpertas and Rivoche to Farmer's Marketing & Supply Company, in April, 1949 (DX 16, I-40). This 1949 assignment did nothing except further to muddy the water.

In the summer of 1956 Bunimovitch assigned to Farmer's Marketing and Supply Company his 75% title to the patent but *did not assign any right to sue for past infringement or any equitable interests in the patent* (DX 16, I 50, 51). Similarly, and at about the same time, Volpertas and Rivoche assigned to Farmer's Marketing and Supply Company

whatever title they possessed in Faitelowitz' patent *without assigning any right to sue for past infringement or any equitable interest in the patent* or the invention (DX 16, I 46, 47).

No supplemental assignments from Bunimovitch or Volpertas or Rivoche which purported to convey the right to sue for past infringement, or any equitable interest, were ever recorded in the Patent Office. Notwithstanding this, in 1958, Farmer's Marketing and Supply Company undertook to assign to the plaintiff herein all rights to Faitelowitz' patent including the right to sue for past infringement, *but without assigning any equitable interests in the patent* (DX 16, I 53-55).

Defendant submits that the chain of title clearly revealed by the foregoing recorded assignments is so defective that plaintiff cannot maintain action for past infringement of the Faitelowitz patent without joining the estate of Bunimovitch as an indispensible party to this action. Apparently Bunimovitch is deceased. Plaintiff's right to sue is also defective for the same reason, unless Volpertas and Rivoche are joined, for neither of these individuals ever parted with the right to sue for past infringement of the patent.[53]

The burden rests upon plaintiff to establish its right to sue and not upon defendant to prove the contrary. Plaintiff has not assumed its burden and cannot assume it by arguing that as a proposition of law the assignment of an expired patent automatically conveys the right to sue for past infringement. In the present instance, plaintiff must rely upon a title determination made by an executive department of the government.

Under the system of checks and balances of our government, defendant knows of no authority, by statute or otherwise, which deprives the judicial department and grants to an executive department any right to reform contracts and remove clouds on title.

For this additional reason plaintiff has no right to maintain suit on the Faitelowitz patent.

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[53] Indeed Volpertas and Rivoche each seem to have such residual rights in both the Volpertas and Rivoche patents in suit as to preclude suit in their absence (DX 15A and 15B, I 3 to 21).

X. CONCLUSION

In this Appeal No. 18899 This Honorable Court should enter an order and mandate which affirms in its entirety the Final Judgement, entered May 24, 1963 in Civil Action 3514, by The Honorable United States District Judge, and which dismisses this appeal with prejudice.

Respectfully submitted,

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CERTIFICATE

I certify that, in connection with the preparation of this brief, counsel for defendant-appellee have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit (effective May 25, 1962) and that in their opinion, the foregoing brief is in full compliance with those rules.

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APPENDIX

THE FORMAL FINDINGS OF FACT

The following formal Findings of Fact II to XXIX (99 R. 96-114) have been reproduced for the convenience of This Court. In reproducing FF II to XIII (which correspond to those selected portions of the Trial Court's Memorandum Opinion "adopted" by plaintiff defendant has italicized language which is omitted from the quoted Trial Court's opinion. For completeness defendant has added FF XIV to XXIX as to which plaintiff's Brief is silent.

II.

[99 R 06] Plaintiff is a British corporation *engaged only in patent licensing* and is owned principally by Robert A. S. Templeton and his wife. Templeton is the Chairman of the Board and its managing director. Defendant is a corporation of the State of Nevada and has a principal place of business in the City of Boise, State of Idaho. This Court has jurisdiction under Sections 1332, 1338(a), 1400(b), *2201 and 2202*, Title 28, U.S.C.A.

III.

The facts and circumstances of the two lawsuits are closely related. Each suit involves a process for making a dehydrated potato powder which will, when combined with warm milk or water, readily reconstitute into a palatable dish of mashed potatoes comparable with that made by the common method using *cooked* fresh potato. Defendant is one of the leading manufacturers of this product in the United States.

IV.

Plaintiff is the owner of three U. S. Patents, each of which discloses a process of making said product, and *plaintiff* contends that the defendant's process infringes certain claims of each patent: [99 R 97] namely, claims 1, 2, 4, 5, 6, 7 and 8 of United States Patent No. 2,119,155, issued to Arnold Faitelowitz and Marcos Bunimovitch on May 31, 1938, *which patent expired May 31, 1955*, claims 3 and 7 of United States Patent

No. 2,342,670, issued to Zelmanas Volpertas on July 4, 1944, *which patent expired July 4, 1961*, and claims 16 and 17 of United States Patent No. 2,520,891, issued to *Farmers' Marketing & Supply Company* (on an application by Eugene Joel Rivoche) on August 29, 1950, *which patent expired September 16, 1959.*

V.

The evidence discloses that *there had been a long-felt need for an instant mashed potato powder.* Both World Wars *and the Korean War* created a demand for *such a* dehydrated product as well as others. *The* minimum bulk and keeping properties *of such a powder* make it suitable for storage and, yet when combined with warm milk or water, it instantly makes an acceptable food. The *white* potato is particularly adaptable for such a product. *White potatoes contain solids (primarily starch) within the range of 17 to 26 percent by weight and approximately 83 to 74 percent water by weight (Plaintiff's Exhibit No. 5).* Many *prior workers* recognized this fact, but until the 1930's none had been able to discover a process which would produce an acceptable food. Prior thereto, inventors had been able to *perfect* processes for drying potato pieces or strips, or for making potato flour, which flour could be used indirectly in the preparation of foods. However, in attempting to develop an instant mashed potato *powder*, two problems *were always present in order to render it reconstitutable when combined with* [99 R 98] *warm milk and water:* first, *the processor* had to prevent the starch cells from rupturing, *and the potatoes from scorching* while being processed, or otherwise the reconstituted product would be pasty and unpalatable; second, *the processor* had to prevent the outer layer cells from hardening when drying. This hardening is sometimes referred to as "case-hardening."

VI.

The first substantial contribution to the art of processing an instant mashed potato powder was made by Arnold Faitelowitz, in Paris, France, in the 1930's. He *taught* that the starch cells of most starch-containing vegetables could be separated without rupturing them if the *cooked* vegetable was first partially dried to a moist poweder, which had lost at the

most about 60 percent by weight of its original water content *(or lost about 50 to 60% of the original weight of the raw vegetable)* before it was put through a second drying stage to reduce it to *a dried* product containing only 10 to 15 percent water content. Each of said drying stages was accomplished by means of heat. *The first such stage was* applied to the cooked vegetable which had been cut into small pieces *and the second such stage was applied after the predried small pieces had been grated or crushed.* Faitelowitz applied for a patent in Great Britain on June 10, 1936, which *British* application serves as the basis for his United States Patent.

VII.

The evidence shows and both parties admit that the Faitelowitz process is somewhat crude and difficult to perform. *The cutting of the whole potato causes cell rupture.* Unless the [99 R 99] drying stages are conducted very skillfully, the heat causes case-hardening. As a result, *the Faitelowitz process* has never been used for commercial production anywhere in the world. However, it served as the basic idea for the successful processes which followed after his initial breakthrough.

VIII.

Volpertas was associated with Faitelowitz in France. Volpertas determined that the initial drying stage of the Faitelowitz process could be accomplished merely by adding some of the fully dried product to the *moist* cooked potatoes and allowing absorption to take place to reduce the moisture content of the entire mixture by averaging or equalizing the moisture. When the moisture content equalized, *the mixture* could then be *finally* dried by the application of heat. The risk of *cell rupture and of* case-hardening was substantially decreased because *the cutting of the cooked potatoes into small pieces was eliminated* and the drying by heat during the first stage of the process *could be modified or shortened,* making the entire process more economical, less difficult to perform and more certain to produce an acceptable product *than Faitelowitz.* Volpertas' improvement on the Faitelowitz process is referred to as the add-back method or step. Add-back is old in the art of dehydration,

of food (including potatoes) and the art of starch-drying, but Volpertas was the first to apply it to a process for making an instant mashed potato powder. Volpertas, whose name is now Zelman Volpert, applied for a patent in Great Britain on October 14, 1937. *This became British Patent 496,423,* and serves as *part of* the basis for his United States Patent *in suit. Volpertas also obtained French Patent 842,651 in March, 1939, and this also serves as another part of the basis of the* [99 R 100] *Volpertas United States Patent in suit.*

IX.

Rivoche was associated with both Faitelowitz and Volpertas in France. Rivoche *claims* credit for an improvement which prescribes limitations within which the Volpertas *add-back* process can always be successfully performed. Volpertas, *in his earlier applications and foreign patents, taught the use of* the add-back *step* in the first drying stage *and also that the first drying stage could be continued until the potatoes showed " * * * a loss in weight of 40 to 50% relatively to that of the initial material; in certain cases, said loss can even attain 60%."* Rivoche *in his United States Patent in suit* teaches *employing the add-back step* until the mixture of wet vegetable and powder contains not more than *"about 50% moisture." The various Faitelowitz, Volpertas, and Rivoche patents each suggest that* when the initial drying stage is conducted to *some* point *at which the cooked vegetable has a moisture content both above* and below *50%* the then moist powder can be dried by heat without substantial risk of *cell rupture or of* hardening. The British applications which *are claimed as* the basis for Rivoche's United States Patent *were* filed on September 16, 1939, *and on December 15, 1939. The Rivoche patent in suit and these 1939 British applications disclose various processes for drying foods. Faitelowitz' United States Patent, Volpertas' French Patent 842,651, and Volpertas' British Patent 496,423 were all published prior to September 16, 1939, and are thus among the prior art as regards Rivoche.*

[99 R 101] *Templeton, for several years prior to 1939,* had been interested in the vegetable drying industry and had made studies in Europe to determine if a successful process for manufacturing an instant mashed potato powder had been discovered. Rivoche was the first to show him an acceptable product and to disclose a feasible process for making the same. A year later Templeton obtained exclusive licenses to the processes in question in behalf of Farmers' Marketing & Supply Company, plaintiff's predecessor. During World War II an instant mashed potato drying industry arose in Great Britain based upon these same or similar processes.

XI.

Meanwhile, in the United States the defendant was engaged in fruitless efforts to discover or obtain a successful process to fill the needs of our government. Defendant met with no success despite the fact that it had adequate facilities, finances, and skilled men in the art. Its expert witness, Ray W. Kueneman, had been employed by the Department of Agriculture during World War II. He had visited dehydration plants abroad to gather information for our government, and had seen and made diagrams of plant operations in Great Britain which were using processes similar to the ones in suit. After the war the defendant employed his services, but for the next five years a successful process still eluded it. Templeton visited the United States in 1945 and became acquainted with defendant's efforts. Defendant's officers professed an interest in plaintiff's processes; however, at this time plaintiff had not perfected its rights thereto in this country.

XII.

[99 R 102] Templeton returned to the United States in 1949. Having acquired to his satisfaction the exclusive rights to the *Volpertas and Rivoche processes wherever patented,* he made another visit to the State of Idaho in *March, 1949,* to confer with the officials of the defendant company. They expressed *some* interest in joining forces to develop

an instant mashed potato product in this country. On March 4, 1949, Templeton conducted a *laboratory* demonstration at the defendant's plant in Caldwell, Idaho, during which he disclosed what he considered to be the basic teachings of the patents in suit. The record discloses that defendant was highly impressed by, and interested in, the processes. *On March 8, 1949, Templeton submitted a written summary of what he considered to be said teachings and a written recommendation to defendant based on the Faitelowitz process.* The parties orally reached an informal understanding in March, 1949, in regard to developing a *commercial process* (and the industry) in this country, which was to be formalized later, subject to the approval of their respective legal counsel. The terms of said agreement were left to future negotiations which, as events transpired, were very extended, and the parties ultimately failed to reach an understanding. The nature and extent of their dealings are more pertinent to plaintiff's contract action. While said negotiations were being *terminated,* the Korean War occurred and defendant went into production to help fill the military needs of our government, *and at that time defendant adopted some of the teachings of said patents for its own operations.*

XIII.

[99 R 103] The parties are in substantial agreement on what defendant's process is, and has been, since it began production. Its process is *described in Plaintiff's Exhibit No. 5* and illustrated by Plaintiff's Exhibits No. 6 and No. 14, each of which was thoroughly explained by witness Ray W. Kueneman, director of Research and Development for the food processing division of the defendant company. It uses the Faitelowitz two-stage drying principle, but instead of drying by heat in the first stage as Faitelowitz teaches, defendant uses the add-back *step during its first stage drying (and prior to or during that stage mashes the cooked potato without added heat either by mashing rools or pug mills; when pug mills are used defendant simultaneously mashes and mixes).* By this method, defendant has always reduced the moisture content of *its* mixture to between 30 and 40 percent before beginning the

second drying stage. Defendant conducts *its* second drying stage by means of a stream of hot air, using dryers which operate under a slightly sub-atmospheric pressure. *Defendant's drying systems reduce* the moisture content of the mixture to approximately 12 to 14 percent in this second drying stage. Thereafter, the *dried* powder is sifted *to separate the powder into coarse, fines and product, and part of the product fraction is* put through another system which reduces it to a finished product containing not more than about 6 to 7 percent moisture.

XIV.

Plaintiff contends that what takes place in defendant's [99 R 104] process after the sifting step is not relevant to the question of infringement (Tr. 117), and defendant does not quarrel with this contention. Defendant does not contend that the various apparatus used in its process from time to time or the minor changes made in the steps of the process in any manner changed the basic nature thereof, and the Court finds such to be the facts.

XV.

The Court finds that the Faitelowitz and Volpertas patents in suit are most susceptible of disposition on the ground of noninfringement, for defendant's process clearly does not infringe any of the claims of either of said patents.

XVI.

Plaintiff accuses defendant of infringement of claims 1, 2, 4, 5, 6, 7 and 8 of the Faitelowitz patent. These claims are accurately set forth in Plaintiff's Exhibit No. 1. Although the claims of a patent are the sole measure of the grant and the means by which infringement is to be determined, plaintiff did not attempt to make any comparison, between the accused process and the claims in suit, at the trial or in plaintiff's written briefs. This oversight is justified only by the fact that no significant comparison exists. Each of the claims of the Faitelowitz patent, other than claim 1, is dependent on claim 1 thereof. Each of the claims

in suit covers a process in which the all-important initial drying stage is performed on small cut pieces of cooked vegetable and is accomplished by means of heat which must not substantially exceed 100 degrees C. In comparing defendant's process with the Faitelowitz claims, it is obvious that defendant accomplishes the predrying stage by using the add-back method which does not involve, and is contrary to, the method employed [99 R 105] by Faitelowitz. Add-back is the later improvement attributed to Volpertas and is not suggested by Faitelowitz. Plaintiff urges that the doctrine of equivalents is applicable, but did not attempt to apply the doctrine at the trial or in written briefs. The Faitelowitz claims cannot be construed by any reasonable application of said doctrine to cover the defendant's process. The existing evidence clearly supports a finding of noninfringement with respect to each and every claim of the Faitelowitz patent in suit, and the Court so finds.

XVII.

Plaintiff's main contention is that the defendant's process utilizes the Faitelowitz principle and thus infringes the patent. According to plaintiff's expert witness, Templeton, this principle is that: "the potato cells, within which are enclosed the starch grains, may, after cooking, be separated without injury to the membrane of the cells after a partial drying and before final drying." (Tr. 204). In the first instance, it has been recognized that one cannot patent a principle. Secondly, the evidence convincingly demonstrates that Faitelowitz did not disclose a practical process for putting that principle to use. Templeton admits that the Faitelowitz process has never been used for a commercial operation anywhere in the world. It took the add-back suggestion of Volpertas to put the so-called Faitelowitz principle into actual operation, and this departure from the Faitelowitz process is a distinguishing feature of most of the processes used in the industry, including defendant's process. The plaintiff has failed to sustain its burden of proving that defendant's process infringes any of the claims of the Faitelowitz patent.

XVIII.

[99 R 106] Plaintiff accuses defendant of infringement of claims 3 and 7 of the Volpertas patent, which claims read as follows:

> "3. The process of preparing potatoes in powdered form, which includes all of the constituent elements of the potato other than water and which is capable of being converted into mashed potatoes by the simple addition of hot liquid, which process consists in cooking potato pieces in an environment of steam at a temperature of substantially 100 degrees C., thereupon pre-drying the potato pieces in the absence of mechanical pressure thereon until the initial weight of the potato mass has been reduced by about one-half due to the loss of water, cooling the potato mass to a temperature in the order of 10 degrees C. and mechanically converting the same into a moist powder and finally drying the moist powder under moderate heat and vigorous stirring in vacuo, until the water content of the powdered potatoes is down to about 12 to 15 percent.
>
> "7. The process of preparing potatoes in powdered form, which includes all of the constituent elements of the potato other than water and which is capable of being converted into mashed potatoes by the simple addition of hot liquid, which process consists in cooking potato pieces in an environment of steam at a temperature of substantially 100 degrees C., thereupon pre-drying the potato pieces in the absence of mechanical pressure thereon until the initial weight of the potato mass has been reduced by about one-half due to the loss of water, cooling the potato mass, mechanically converting the same into a moist powder, drying the moist powder under moderate heat and stirring in vacuo until the water content of the powdered potatoes is down to about 12 to 15 percent, collecting the potato powder thus prepared to a substantial bulk and continuing the heating thereof until the water content is reduced to between 6 and 10 percent." (Plaintiff's Exhibit No. 2).

XIX.

[99 R 107] Volpertas' alleged contribution in the art of processing an instant mashed potato powder is set forth on page 12 of Plaintiff's Main Brief After Trial. There plaintiff states:

> "That inventive concept of the Volpert patent *with which we are now concerned* resides in the discovery that the first stage of drying the cooked potato can be accomplished and the moist powder for the second stage simultaneously produced simply by adding to and gently and thoroughly mixing with, the cooked potato a sufficient quantity of previously fully-dried powder product. This process permits reducing the water content of the cooked potato mass in an economically practical way and without risk of hardening or scorching in the first drying stage." (Emphasis added.)

This alleged discovery attributed by plaintiff to Volpertas is an add-back method or step, and add-back is admittedly used by the defendant in its process.

XX.

Section 112, Title 35, U.S.C.A., of the Patent Laws of the United States, and its predecessor, compel an applicant for a patent to conclude his application with "one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention" after *first* having set forth in the specification the "best mode contemplated by the inventor of carrying out his invention." Neither of the claims 3 and 7 of the Volpertas patent points out nor distinctly claims the add-back method. Said claims refer only to "pre-drying the potato pieces in the absence of mechanical pressure" to reduce the moisture content of the cooked potato pieces in the first stage of the process. Other than this, the [99 R 108] method used to accomplish pre-drying is not specified in the claims in suit. Resorting to the specifications which are supposed to show the inventor's best mode for carrying out his process, the Court finds that the Volpertas pre-drying is to be accomplished by heat. This method is referred to on several occasions in the patent. Thereafter, Volpertas explains that if his process, using heat for pre-drying, is carried on in an ideal manner, no coarse particles should appear in the potato powder. However, he elaborates, that if there are some coarse particles, the same may be reclaimed by softening them by the add-back method. Then it is stated that: "In commercial practice, the result set forth in the previous paragraph" (reclaiming the coarse particles by add-back) "may be attained in continuous operation" and he

goes on to illustrate such reclaiming by add-back. (Plaintiff's Exhibit No. 2). In view of this disclosure in the specification, plaintiff argues that claims 3 and 7 include the add-back method or step and that defendant's process is equivalent to said claims in all respects. However, it should be noted that Volpertas *specifically* claimed an add-back step in claims 5 and 8 of his patent which claims are *not* in suit. In claims 5 and 8 said step is used at other stages in the process, and not for the purpose of pre-drying the cooked potato pieces in the first instance.

XXI.

The Court believes that the reason Volpertas did not expressly claim the add-back method for accomplishing pre-drying in the claims in suit is quite obvious from an examination of the patent's file wrapper history. Defendant urges that said examination be made to support its contention that plaintiff is estopped from including the add-back method in claims 3 and 7 on the ground of [99 R 109] file wrapper estoppel. The evidence supports the finding of file wrapper estoppel against Volpertas and plaintiff with respect to each of his claims 3 and 7 in suit.

XXII.

The file wrapper of the Volpertas patent is somewhat lengthy. As the patent states, it is a continuation, in part, of two copending applications. The most pertinent copending application is Serial Number 254,739, which was filed on February 4, 1939, in which Volpertas sought to obtain a patent based on a French application (which became French Patent 342,651 in March 1939). In this earlier copending United States application Volpertas attempted to claim a process wherein the vegetables were dried by the add-back method, but the examiner finally rejected such claims in view of prior patents which the examiner concluded covered such a method. Volpertas appealed on July 1, 1941. The application was later vested in the Alien Property Custodian and the appeal was dismissed on June 12, 1943. The application which became the Volpertas patent in suit was first filed on January 1, 1942, which the file wrapper

discloses was approximately the same time the add-back method claims of said earlier copending application were finally rejected by the examiner and on appeal. (Plaintiff's Exhibit No. 2, File History 3.)

XXIII.

Under the circumstances set forth in paragraph XXII, above, the Court finds that Volpertas abandoned his claims to the add-back method for the different process covered by the claims in suit. The [99 R 110] evidence reveals that he abandoned add-back because his experience with his prior copending application taught him that such a claim would be rejected in view of prior patents. The method which Volpertas did claim, in his patent in suit, is pre-drying the cooked patato pieces by the first stage of his operation by the use of heat which is plainly disclosed by his specification. The Volpertas method covered in the claims in suit cannot be construed to be in any manner equivalent to the add-back method as used by the defendant. Accordingly, the Court finds that the defendant has clearly not infringed claims 3 and 7 of the Volpertas patent.

XXIV.

The Volpertas process covered in the claims in suit and defendant's process are also materially different in other respects such as in the extent of cooling but, in view of the above, a discussion of these distinguishing features would be academic.

XXV.

In considering the issues raised by plaintiff's patent infringement suit the usual practice is to determine the question of the validity of the patent before passing on the question of infringement. However, it appears that there is an exception to this rule where noninfringement is clearly apparent and the public interest does not require a holding of invalidity. Under such circumstances, which are here present with regard to the Faitelowitz and Volpertas patents in suit, the issue of validity is considered academic as, of course, are the other defenses raised by the defendant with respect to the said two patents. It is

not necessary to pass on the validity of either of the now expired Faitelowitz or Volpertas patents in suit.

XXVI.

[99 R 111] The Rivoche patent was applied for on January 27, 1948, and was granted on August 29, 1950; it expired on September 16, 1959. It claims priority based on two applications which were filed in Great Britain on September 16, 1939, and on December 15, 1939, and which became British Patents in 1948. It received the benefits of Public Law 690 (the Boykin Act) which extended the time for filing his United States application. The two claims in suit were inserted in the Rivoche application by amendment on June 28, 1950 (Plaintiff's Exhibit 3 (2)); the claims read as follows:

> "16. The method of preparing cooked starch vegetable foodstuff, in readily-reconstitutable form, from a mass of the cooked vegetable, which comprises performing successively and in the order set forth, the steps of thoroughly mixing the same with the same kind of dried and powdered vegetable foodstuff in amount to produce a resultant mixture containing not more than about 50% by weight of moisture, and drying said resultant mixture to form the readily-reconstitutable product, said drying operation being carried out so as to preserve substantially the structure of the vegetable solids, including capillary properties thereof.
>
> "17. The method of claim 16 in which said resultant mixture is subjected to a sieving operation to disintegrate it into relatively small particles before it is subjected to the final drying operation." (Plaintiff's Exhibit No. 3).

XXVII.

Although the claims 16 and 17 in suit clearly set forth the add-back method or step, plaintiff admits, and the Court finds, that Rivoche did not invent the add-back method. His contribution to the art of processing a dehydrated vegetable product is stated on page 13 [99 R 112] of Plaintiff's Main Brief After Trial wherein it is said:

> "The only one Rivoche's contribution (sic) to the art that is presented for adjudication here can be simply stated as accurately prescribing a limitation within which Volpert's discovery can always be successfully performed. Rivoche determined that the Volpert's procedure for producing a moist powder for final drying would invariably succeed if the mix of cooked potato and dry product was brought to a total moisture content not exceeding 50% by weight at the time of reduction to the moist powder."

Hence, the crucial portion of each of the claims 16 and 17 is:

> " * * * the steps of thoroughly mixing the same with the same kind of dried and powdered vegetable foodstuff in amount to produce a resultant mixture containing not more than about 50% by weight of moisture, * * * ."

The Rivoche patent in suit reveals that he considered the said "*about* 50%" moisture content to be an important feature in his process as a maximum moisture content. At this point, or at some point below "about 50%," the first drying stage ends and the second drying stage begins. The Rivoche patent teaches that the maximum point of about 50% moisture may be reached by several methods, including the add-back method. The difference between Rivoche's claimed improvement and the prior art is quite subtle, but the evidence supports the conclusion that his improvement does insure a more successful result. However, because of the slight degree of improvement over the prior art, the paramount question for determination is whether his improvement rises to the dignity of invention.

XXVIII.

The evidence reveals that Rivoche's contribution to the art of processing an instant mashed potato covered in claims 16 and 17 added very little, if anything, to the known art. Defendant cites several foreign and United States prior patents in addition to those [99 R 113] of Volpertas and Faitelowitz to support its contentions that Rivoche contributed nothing which could be called an invention. However, said patents concern processes for making products other than mashed potato powder. The most pertinent prior art is that disclosed by the patents of

Faitelowitz and Volpertas. These patents show that Rivoche was not the first to determine a probable point of departure between the first and second stage drying operations. Faitelowitz teaches that the cooked potatoes should be first dried until they have "lost at the most about 60% by weight of their initial water-content." Volpertas said, "until the initial weight of the potato mass has been reduced by about one-half due to the loss of water." Rivoche's alleged improvement is the direction to dry the potatoes down to the point where they contain "not more than about 50% moisture." The Court believes that Faitelowitz' teaching might exclude experimentation beyond the point stated, but that Volpertas suggests experimentation in order to find the optimum point of departure between the two drying stages. Rivoche does nothing more than teach a minimum point of depatture, leaving the optimum for experimentation. The defendant has been able to obtain an acceptable product by drying the cooked potatoes down to the percentages specified by all of the patents, but has, as the Court believes one skilled in the art would have, experimented to find the optimum point of departure as is suggested by Volpertas. Therefore, the Court is of the opinion that Rivoche's alleged improvement over Volpertas, is as contended by defendant, not inventive.

XXIX.

The Court finds that claims 16 and 17 of the Rivoche patent [99 R 114] in suit are each non-inventive and invalid. Under these circumstances, the issue of infringement of said claims for other reasons is academic as are the other defenses urged by the defendant.

STATUTES INVOLVED

PART IV. — JURISDICTION AND VENUE

CHAPTER 83. — COURTS OF APPEALS

28 U. S. C. 1291. Final decisions of district courts. The courts of appeals shall have jurisdiction of appeals from all final decisions of the district courts of the United States, the United States District Court for the District of the Canal Zone, the District Court of Guam, and the District Court of the Virgin Islands, except where a direct review may be had in the Supreme Court. (June 25, 1948, ch. 646, 62 Stat. 929; Oct. 31, 1951, ch. 655, sec. 48, 65 Stat. 726; July 7, 1958, Pub. L. 85 — 508, sec. 12(e), 72 Stat. 348.)

28 U. S. C. 1292. Interlocutory decisions. (a) The courts of appeals shall have jurisdiction of appeals from:

* * *

(4) Judgments in civil actions for patent infringement which are final except for accounting . . . (June 25, 1948, ch. 646, 62 Stat. 929; Oct. 31, 1951, ch. 655, sec. 49, 65 Stat. 727; July 7, 1958, Pub. L. 85—508, sec. 12(e), 72 Stat. 348; Sept. 2, 1958, Pub. L. 85—919, 72 Stat. 1770.)

CHAPTER 85. — DISTRICT COURTS; JURISDICTION

28 U. S. C. 1338. Patents, copyrights, trade-marks and unfair competition. (a) The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases.

* * *

(June 25, 1948, ch. 646, 62 Stat. 931.)

CHAPTER 87.— DISTRICT COURTS; VENUE

28 U. S. C. 1400. Patents and copyrights. (a) (Copyrights). (b) Any civil action for patent infringement may be brought in the judicial

district where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business. (June 25, 1948, ch. 646, 62 Stat. 936.)

CHAPTER 91.— COURT OF CLAIMS

28 U. S. C. 1498. Patent cases. (a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the Court of Claims for recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

* * *

(c) The provisions of this section shall not apply to any claim arising in a foreign country. (June 25, 1948, ch. 646, 62 Stat. 941; May 24, 1949, ch. 139, sec. 87, 63 Stat. 102; Oct 31, 1951, ch. 655, sec. 50(c), 65 Stat. 727; July 17, 1952, ch. 930, 66 Stat. 757; Sept. 8, 1960, Pub. L. 86—726, 74 Stat. 855.)

35 U. S. C.
CHAPTER 10--PATENTABILITY OF INVENTIONS

Sec.

100. Definitions.
101. Inventions patentable.
102. Conditions for patentability; novelty and loss of right to patent.
103. Conditions for patentability; non-obvious subject matter.
104. Invention made abroad.

§ 100. Definitions

When used in this title unless the context otherwise indicates —

(a) The term "invention" means invention or discovery.

(b) The term "process" means process, art or method, and includes a new use of a known process, machine, manufacture, composition of matter, or material.

(c) The terms "United States" and "this country" mean the United States of America, its territories and possessions.

(d) The word "patentee" includes not only the patentee to whom the patent was issued but also the successors in title to the patentee.

§ 101. Inventions patentable

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 102. Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless —

(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or

(c) he has abandoned the invention, or

(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or

(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or

(f) he did not himself invent the subject matter sought to be patented, or

(g) before the applicant's invention thereof the invention was made

in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

Notes — Section 4(b) of the Act of July 19, 1952 provides:

"Section 102(d) of Title 35, as enacted by section 1 hereof, shall not apply to existing patents and pending applications, but the law previously in effect, namely the first paragraph of R. S. 4887 (U. S. Code, title 35, sec. 32, first paragraph, 1946 ed.), shall apply to such patents and applications."

Section 4(d) of the Act of July 19, 1952 provides:

"The period of one year specified in section 102(b) of Title 35 as enacted by section 1 hereof shall not apply in the case of applications filed before August 5, 1940, and patents granted on such applications, and with respect to such applications and patents, said period is two years instead of one year."

§ 103. Conditions for patentability; non-obvious subject matter

A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made.

§ 104. Invention made abroad

In proceedings in the Patent Office and in the courts, an applicant for a patent, or a patentee, may not establish a date of invention by reference to knowledge or use thereof, or other activity with respect thereto, in a foreign country, except as provided in section 119 of this title. Where an invention was made by a person, civil or military, while domiciled in the United States and serving in a foreign country in connection with operations by or on behalf of the United States, he shall be entitled to the same rights of priority with respect to such invention as if the same had been made in the United States.

§ 112. Specification

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof.

§ 119. Benefit of earlier filing date in foreign country; right of priority

An application for patent for an invention filed in this country by any person who has, or whose legal representatives or assigns have, previously regularly filed an application for a patent for the same invention in a foreign country which affords similar privileges in the case of applications filed in the United States or to citizens of the United States, shall have the same effect as the same application would have if filed in this country on the date on which the application for patent for the same invention was first filed in such foreign country, if the application in this country is filed within twelve months from the earliest date on which such foreign application was filed; but no patent shall be granted on any application for patent for an invention which had been patented or described in a printed publication in any country more than one year before the date of the actual filing of the application in this country, or which had been in public use or on sale in this country more than one year prior to such filing.

* * *

Note — Section 4(c) of the Act of July 19, 1952 provides that the second paragraph of section 119 shall not apply in the case of patents existing on January 1, 1953.

Note. — See pages 68-74 for statutes temporarily extending the period of priority.

Note. — Following is a list of countries with respect to which the right of priority referred to in this section has been recognized. The authority in the case of these countries is the International Convention for the Protection of Industrial Property (613 O.G. 23, 53 Stat. 1748), indicated by the letter I following the name of the country; the Inter-American Convention relating to Inventions, Patents, Designs and Industrial Models, signed at Buenos Aires August 20, 1910 (207 O.G. 935, 30 Stat. 1811), indicated by the letter P after the name of the country; or reciprocal legislation in the particular country, indicated by the letter L following the name of the country. * * * France (I), * * * Great Britain (I), * * *

§ 120. Benefit of earlier filing date in the United States

An application for patent for an invention disclosed in the manner provided by the first paragraph of section 112 of this title in an application previously filed in the United States by the same inventor shall have the same effect, as to such invention, as though filed on the date of the prior application, if filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application and if it contains or is amended to contain a specific reference to the earlier filed application.

§ 132. Notice of rejection; reexamination

Whenever, on examination, any claim for a patent is rejected, or any objection or requirement made, the Commission shall notify the applicant thereof, stating the reasons for such rejection, or objection or requirement, together with such information and references as may be useful in judging of the propriety of continuing the prosecution of his application; and if after receiving such notice, the applicant persists in his claim for a patent,with or without amendment, the application shall be reexamined. No amendment shall introduce new matter into the disclosure of the invention.

§ 133. Time for prosecuting application

Upon failure of the applicant to prosecute the application within six

months after any action therein, of which notice has been given or mailed to the applicant, or within such shorter time, not less than thirty days, as fixed by the Commissioner in such action, the application shall be regarded as abandoned by the parties thereto, unless it be shown to the satisfaction of the Commissioner that such delay was unavoidable.

§ 134. Appeal to the Board of Appeals

An applicant for a patent, any of whose claims has been twice rejected, may appeal from the decision of the primary examiner to the Board of Appeals, having once paid the fee for such appeal.

§ 281. Remedy for infringement of patent

A patentee shall have remedy by civil action for infringement of his patent.

§ 282. Presumption of validity; defenses

A patent shall be presumed valid. The burden of establishing invalidity of a patent shall rest on a party asserting it.

The following shall be defenses in any action involving the validity or infringement of a patent and shall be pleaded:

(1) Noninfringement, absence of liability for infringement, or unenforceability,

(2) Invalidity of the patent or any claim in suit on any ground specified in part II of this title as a condition for patentability,

(3) Invalidity of the patent or any claim in suit for failure to comply with any requirement of sections 112 or 251 of this title,

(4) Any other fact or act made a defense by this title.

In actions involving the validity or infringement of a patent the party asserting invalidity or noninfringement shall give notice in the pleadings or otherwise in writing to the adverse party at least thirty days before the trial, of the country, number, date, and name of the patentee of any patent, the title, date, and page numbers of any publication to be relied upon as anticipation of the patent in suit or, except in actions in the United States Court of Claims, as showing the state of the art, and the name and address of any person who may be relied upon as the prior inventor or as having prior knowledge of or as having previously used or offered for sale the invention of the patent in suit. In the absence of such

notice proof of the said matters may not be made at the trial except on such terms as the court requires.

35 U. S. C. §§ 101-108, 110-114 (1946 Edition)

1. Special Provisions for Conditions Arising from World War II: (Boykin Act). An Act To extend temporarily the time for filing applications for patents, for taking action in the United States Patent Office with respect thereto, for preventing proof of acts abroad with respect to the making of an invention, and for other purposes. (Public Law 690, 79th Cong., 2d sess., ch. 910, approved Aug. 8, 1946; 60 Stat. 940.)

SECTION 1. The rights of priority provided by section 4887 of the Revised Statutes (U. S. C., title 35, sec. 32), as amended, for the filing of applications for patent for inventions, discoveries, and designs, which rights had not expired on the 8th day of September 1939, or which rights have arisen since the 8th day of September 1939, shall be, and the same are hereby, extended until the expiration of a period of twelve months from the passage of this Act in favor of the citizens of the United States and of citizens or subjects of all countries which have extended, or which now extend or which within said period of twelve months, shall extend substantially reciprocal privileges to citizens of the United States, and such extension shall apply to applications upon which patents have been granted, as well as to applications now pending or filed within the period specified herein: *Provided*, That no such extension shall apply to any patent unless a request in writing was made therefor during the pendency of the application for such patent in the United States Patent Office, or within twelve months after the passage of this Act, which request must be accompanied by (1) a copy of the original foreign application, certified to by the patent office of the country in which it was filed, but if the original foreign application has been destroyed, other evidence pertaining thereto may be accepted; (2) a sworn translation of the same if it is not in the English language; and (3) if the foreign application was not made by the inventor himself, an affidavit by the applicant or patentee stating that such application was filed for his benefit or on his behalf and that such procedure is in accordance with the procedure in the foreign country: *Provided further*, That no patent granted or validated by reason of any such extension shall in any way furnish a basis of claim against the Government of the United States: *Provided further*, That such extension

shall in no way abridge or otherwise affect the right of the United States, or of any person, firm, association, company, or corporation,who,before the passage of this Act was bona fide in possession of any rights in or under patents or applications for patents conflicting with rights in patents granted or validated by reason of such extensions to exercise such rights by itself or himself personally, or by such agents, or licensees as derived their rights from it or him before the passage of this Act, to the extent that they shall not be amenable to any action for infringement of any patent granted or validated by reason of such extension.

A patent shall not be refused on an application coming within the provisions of this section, nor shall a patent granted on such application be held invalid, by reason of the invention having been patented or described in any printed publication or in public use or on sale in the United States more than one year prior to the filing of the application in the United States, unless such patent or publication or such public use or sale was prior to the filing of the foreign application upon which the right of priority is based.

SEC. 2. Whenever, prior to the 8th day of April 1946, an invention, discovery, or a design has been communicated in writing or embodied in any article supplied to the Government of the United States or to any person, firm, or corporation in the United States at the request of said Government, pursuant to and by reason of an agreement or arrangement between the Government of the United States and the government of a foreign country for the supply or mutual exchange of information or articles for use for national defense purposes during the periods of the national emergencies declared by the President of the United States preceding World War II, or for use for war purposes during World War II —

(a) A patent based on an application filed by the inventor of the invention, discovery, or design so communicated or supplied shall not be refused or held invalid merely because of the fact that the invention, discovery, or design had been in public use or on sale in the United States, or described in a printed publication, if such public use or sale or publication was in consequence of and attributable to the communication or supply and subsequent to the date of the communication or supply; and

(b) For use in any action in a United States court or proceeding in the Patent Office involving a patent for an invention, discovery, or a design, or involving an application for patent for an invention, discovery, or a design so communicated or supplied any court of the United States for any district or Territory thereof,

and the Commissioner of Patents shall have the power to call upon any department or agency of the Government of the United States to produce information or papers in its possession relating to the communication or supply or relating to the further communication of the invention, discovery, or design by said department or agency to any person, firm, or corporation in the United States: *Provided, however*, That the head of any department or agency may refuse and omit to comply with any call for information or papers when in his opinion such compliance would jeopardize the national defense.

No benefit under section 2 of this Act shall be extended to any person unless (1) an application for patent for the same invention, discovery, or design which was communicated or supplied as aforesaid is filed in the United States Patent Office prior to the expiration of twelve months from the date of this Act; and (2) unless sufficient information in writing and under oath as to what was communicated or supplied, the date thereof and to whom made, is furnished to the Commissioner of Patents by the owner of such application while it is pending, or prior to the expiration of twelve months from the date of this Act to enable him to judge of the identity of the invention so communicated or supplied with the invention claimed in such application, which information shall be made a part of the record of such application and shall have no evidentiary value as proof of the facts stated therein; and (3) unless the country of which such person is a national extends substantially reciprocal privileges to citizens of the United States.

SEC. 3. That whenever it shall be shown to the satisfaction of the Commissioner of Patents that the time now fixed by law for the payment of any fee, or for the taking of any other action, with respect to an application for patent for an invention, discovery, or design has lapsed because of conditions growing out of World War II, which time had not expired on the 8th day of September 1939, or which commenced after the 8th day of September 1939, such time may be extended by the Commissioner to a date not later than twelve months after the passage of the Act, without the payment of extension fees or other penalty, in favor of citizens of the United States and the citizens or subjects of countries which have extended, now extend, or shall extend prior to the expiration of twelve months after the passage of this Act substantially reciprocal privileges to citizens of the United States: *Provided*, That no extension herein shall confer such privileges upon the citizens or subjects of a foreign country for a longer term than the term

during which such privileges are conferred by such foreign country upon the citizens of the United States, but nothing in this Act shall give any right to reopen interference proceedings where final hearing before the Examiner of Interferences or the Board of Interference Examiners has taken place.

SEC. 4. That no patent granted or validated by reason of any extension of time provided for by sections 1 and 3 of this Act shall abridge or otherwise affect the right of the United States, or of any person, firm, association, company, or corporation, or agent or agents, or his successor in business, to continue or to resume any manufacture, use, or sale bona fide commenced by it or him in the United States before the passage of this Act, or, in the case of an application claiming the benefits of section 3 hereof, commenced by it or him before the taking of action or the payment of any fee under that section if such action or payment was later than the passage of this Act, nor shall the further manufacture, use, or sale by it or him, or its or his agents or successors in business or the use or sale of the devices resulting from such manufacture or use constitute an infringement: *Provided*, That the benefits of this section shall not apply to the manufacture, use, or sale as aforesaid if and to the extent that it is based upon or attributable to a communication of the invention, discovery, or design so manufactured, used, or sold to the United States or to any person, firm, or corporation in the United States at the request of said Government under an agreement or arrangement between the Government of the United States and the government of another country for the supply or mutual exchange of information or articles for use for national defense purposes during the periods of the national emergencies declared by the President of the United States preceding World War II, or for use for war purposes during World War II.

SEC. 10. No patent for an invention or a discovery granted under the provisions of section 1 or 3 of this Act shall extend for a longer term than twenty years from the filing date of the first application regularly filed in any country disclosing the same invention, and in no event for a period in excess of seventeen years from the date of the grant of such patent.

SEC. 11. No claims for patent infringement shall be made or action brought by or on behalf of or for the benefit of any country or a national of any country against which the United States has declared the existence of a state of war, in respect to any manufacture, use, or sale since September 8, 1939.

SEC. 12. That nothing in this Act shall affect any act which has been or shall be done by virtue of the special measures taken during World War II under legislative, executive, or administrative authority of the United States in regard to the rights of any enemy, or ally of an enemy, as defined by the Trading With the Enemy Act of October 6, 1917 (40 Stat. L. 411), as amended, in patents for inventions and designs.

SEC. 13. Section 10(a) of the said Trading With the Enemy Act, relating to the filing and prosecution of applications for patents and the registration of trademarks, prints, labels, and copyrights, by an enemy, or ally of an enemy, is hereby repealed.

SEC. 14. The benefits of this Act shall not extend in favor of inventions, applications, or patents made by or owned by citizens of any country with which the United States shall have been at war since the 8th day of September 1939. The Alien Property Custodian shall be entitled to the benefits of this Act.

SEC. 15. Nothing contained in this Act shall be effective to nullify any judicial finding upon the validity of any patent for an invention, discovery, or a design heretofore made by a court of competent jurisdiction.

SEC. 16. If any clause, sentence, paragraph, or part of this Act shall be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair, or invalidate the remainder thereof, but shall be confined in its operations to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.

2. Further Extension of Time for Taking Actions Permitted by Boykin Act. An Act to extend temporarily the time for filing applications for patents and for taking action in the United States Patent Office with respect thereto. (Public Law 220, 80th Cong., 1st sess., ch. 302, approved July 23, 1947; 61 Stat. 413.)

The period of extension of priority rights under section 1 of Public Law 690, Seventy-ninth Congress, approved August 8, 1946, and the time for the payment of any fee or the taking of any other action under section 3 of said Act, specified as expiring twelve months after the passage of that Act, shall be further extended to a date not later than February 29, 1948, * * *

35 U. S. C. § 109 (1946 Edition)

§ 109. Establishment of invention by reference to knowledge or use in foreign country; priority rights

In proceedings in the Patent Office and in the courts of the United States an applicant for a patent for an invention, discovery, or a design, or a patentee, shall not be permitted to establish the date of invention or discovery by reference to knowledge or use thereof, or other activity with respect thereto, in a country foreign to the United States, other than the filing in a foreign country of an application for a patent for the same invention, discovery, or design which, in accordance with the provisions of section 32 of this title or in accordance with and subject to the provisions of sections 101-114 of this title, is entitled to have the same force and effect as it would have had if filed in the United States on the date on which it was filed in such foreign country: Provided, That where an invention was made by a person, civil or military, during the time such person was domiciled in the United States or its possessions and was serving in a foreign country in connection with the prosecution of the war on behalf of the United States or its allies, the inventor thereof shall be entitled, in interference and other proceedings arising in connection with such invention, to the same rights of priority with respect to such invention as if the same had been made in the United States. Aug. 8, 1946, c. 910, § 9, 60 Stat. 943.

TABLES OF OLD AND NEW STATUTES

1. Table showing where subject matter comparable to present Title 35 may be found in prior statutes.

Present title 35 *section*	*Old title* 35 (1946 *edition*) *section*	*Revised Statutes, section; or other law*
100	. . . . .	
101	31	R. S. 4886
102	31, 32, 72	R. S. 4886, 4887, 4923
103	. . . . .	
104	72, 109	R. S. 4923, Act Aug. 8, 1946, ch. 910, sec. 9, 60 Stat. 943.

Present title 35 section	Old title 35 (1946 edition) section	Revised Statutes, section; or other law
*	*	*
112	33	R. S. 4888
*	*	*
119	32	R. S. 4887
120	. . . . .	
*	*	*
132	51	R. S. 4903
133	37	R. S. 4894
134	57	R. S. 4909
*	*	*
281	67, 70	R. S. 4919, 4921
282	69	R. S. 4920

2. Table showing where the subject matter of prior statutes will be found in new Title 35.

A. Revised Statutes of 1874

R. S. Sec.	35 U. S. C. Sec.
*	* *
4886	101, 102, ***
4887	102 (d), 119 ***
4888	111, 112, ***
*	* *
4894	133 ***
*	* *
4903	132, 135
*	* *
4909	134
*	* *
4919	281, ***
4920	282
4921	281, ***
*	* *
4923	102, 104

C. United States Code, Title 35, 1946 ed.

Old Title (1946 ed.) Sec.	New Title 35 Sec.
*	* *
31	101, 102, ***
32	102 (d), 119, ***
33	111, ***
*	* *
37	133
*	* *
51	132, 135
52	135
*	* *
57	134
*	* *
67	281, 284
69	282
70	281, 283-6, 290
*	* *
72	102, 104
*	* *
109	104

Note. -- In the 1946 edition of the U. S. Code, section numbers 89-96 of title 35 were assigned to sections 1 to 8 of the Royalty Adjustment Act, see page 74; section numbers 101-108, 110-114 were assigned to sections 1-8, 10-12, 14, 15 of the Boykin Act, see pages 68-72; section numbers 115-118a were assigned to the Veterans Patent Extension Act, see page 74; the acts or sections of acts referred to are no longer included in title 35 and are not codified. Section 119 of the 1946 edition of title 35 is now section 2371 of the appendix to title 50, see page 66.

LIST OF EXHIBITS

The list of exhibits in plaintiff's appendix pp. 15a to 17a of Main Brief contains enough errors to be misleading to This Court. The list of exhibits has been corrected and reproduced by Defendant with some explanatory notes. Defendant's index is also supplemented by an Index of Designated Documentary Exhibits as page-marked in red numbers for the convenience of This Court.

Exhibit	Description	Offered (T)	Admitted (T)
1	Faitelowitz Patent and Patent Office File History	10	11
2	Volpertas Patent and File History and File Histories of Abandoned Applications	15	16
3	Rivoche Patent and File History, and Rivoche British Applications	18	18
4	Abstract of Title to Patents	23	28 Q
5	Report and Journal Articles, Simplot Process	*45*	46
6	Chart	47	49 Q
7	Letter, Equipment List and Process Description	*127*	127
8	Correspondence	175	177 Q
9	Letter - 3/16/49	194	195
10	Handwritten Notes	*195*	196
11	Patents and Publications from Harrington and Olson Deposition	*280*	285 Q
12	Heated Paddle Mixer Drawing	*368*	368
13	Photographs (3) Steam Heated Dryer	*368*	368
14	Flow Sheet Simplot Processes	*386* (?)	387 (?)
15	Agreements, Farmers Marketing	*685*	686
16	Assignments of Patents	690	691

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17	Patents and Other Prior Art	692	1026
18	Application	758	758
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19b	Drawing of Heated Mixer	802	*802*
20	Royalty Adjustment Order	830	*830*
21	Chart, Chronology of Patents in Suit	885	*886*
22	Volpertas, Rivoche, Agreement Farmers Marketing	919	920
23	Assignment	943	943
24	Samples (2)	944	945 (?)
25	Microphotographs (4)	960	960
26	Combined Food Board Report (Kueneman), 1943	*992*	993 Q
27	Letter (4/10/43)	978	*N. A.*
28a	Sketch by Kueneman, 1943	*982*	983
28b	Sketch by Kueneman, 1943	*982*	983
28c	Sketch by Kueneman, 1943	*982*	983
29a-g	Kueneman Notes	*1013*	1013
30	Volpert Patent (foreign)	1020	*1020*
31	Rivoche Patent (foreign)	1020	*1020*
32	Book-Food Technology	*1029*	1030 Q
33	Correspondence	1047	1047 Q
34	Patents and Publications	1047	1048 Q
35	Draft Report	*1053*	1053
36	Draft Report	*1053*	1053
37	Draft Report	*1053*	1053
38	Charts (Dr. Jackson's)	1176	1177
39	Push Final Specimen	1358	1358
40	Pull Final Specimen	1358	1358

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42	1951 Product	1358	1358
43	Simplot News	*1397*	1397
44	Patent Book	*1442*	*N. A.*
45	Assignment 12/8/59	1444	1445
46	Assignment 10/11/61	1444	1445
47a	Inter Partes Test Caldwell	1454	1454
47b	Photographs (21) of Caldwell Tests	1454	1454
48	Shelley Procedures	1475	1475
49a-e	Notes & Drawings (Glabe)	1487	1487 Q

Note: Where an exhibit was offered but excluded on objection the notation "N. A." has been used. Where the exhibit was admitted on a qualified basis the notation "Q" has been used. Where plaintiff's Index was in error italics have been used. Where an exhibit has apparently been offered and admitted but doubt exists the notation (?) has been used.

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THE FAITELOWITZ CLAIMS IN SUIT

See Over

THE FAITELOWITZ CLAIMS IN SUIT

"1. A method of reducing potatoes and other starch-containing vegetables to the form of a dry powder in which the starch is preserved in its initial form which comprises cooking the vegetables at a temperature which must not substantially exceed 100°C., **cutting the cooked vegetables into small pieces, partially drying the pieces, at a temperature which also must not substantially exceed 100°C., until they have lost at the most about 60% by weight of their initial water-content, reducing the partially dried pieces to the form of a moist powder and further drying the moist powder, at a temperature which must not greatly exceed 80°C.,** until it has a water-content of approximately 10-15% by weight."

2. **A method as claimed in claim 1,** in which the moist powder is continually agitated while it is being dried.

4. **A method as claimed in claim 1, in which the partial drying of the pieces is such as to cause them to lose 50 to 60% in weight calculated on the weight of the raw vegetables.**

5. **A method as claimed in claim 1, in which the partially dried chopped vegetables are grated or crushed to produce the moist powder.**

6. **A method as claimed in claim 1,** wherein the drying is carried out in stages.

7. **A method as claimed in claim 1,** wherein the drying is carried out in stages and under a reduced pressure.

8. **A method as claimed in claim 1,** wherein the drying is carried out under a reduced pressure.

THE VOLPERTAS CLAIMS IN SUIT

See Over

THE VOLPERTAS CLAIMS IN SUIT

"3. The process of preparing potatoes in powdered form, **which includes all of the constituent elements of the potato other than water** and which is capable of being converted into mashed potatoes by the simple addition of hot liquid, which **process consists** in cooking potato pieces in an environment of steam at a temperature of substantially 100 degrees C., **thereupon pre-drying the potato pieces in the absence of mechanical pressure thereon until the initial weight of the potato mass has been reduced by about one-half due to the loss of water, cooling the potato mass to a temperature in the order of 10 degrees C.** and **mechanically converting the same into a moist powder and finally drying** the moist powder **under moderate heat and** vigorous stirring **in vacuo,** until the water content of the powdered potatoes is down to about 12 to 15 per cent.

7. The process of preparing potatoes in powdered form, **which includes all of the constituent elements of the potato other than water** and which is capable of being converted into mashed potatoes by the simple addition of hot liquid, which **process consists** in cooking potato pieces in an environment of steam at a temperature of substantially 100 degrees C., **thereupon pre-drying the potato pieces in the absence of mechanical pressure thereon until the initial weight of the potato mass has been reduced by about one-half due to the loss of water, cooling the potato mass, mechanically converting the same into a moist powder, drying the moist powder under moderate heat and** stirring **in vacuo** until the water content of the powdered potatoes is down to about 12 to 15 per cent, **collecting the potato powder thus prepared to a substantial bulk and continuing the heating thereof** until the water content is reduced to between 6 and 10 per cent."

THE RIVOCHE CLAIMS IN SUIT

See Over

THE RIVOCHE CLAIMS IN SUIT

16. The method of preparing cooked starchy vegetable foodstuff, in readily-reconstitutable form, from a mass of the cooked vegetable, which comprises **performing successively and in the order set forth, the steps of thoroughly mixing the same** with the same kind of dried and powdered vegetable foodstuff in amount **to produce a resultant mixture** containing not more than about 50% by weight of moisture, **and drying said resultant mixture** to form the readily-reconstitutable product, **said drying operation being carried out so as to preserve substantially the structure of the vegetable solids, including capillary properties thereof.**

17. **The method of claim 16 in which said resultant mixture is subjected to a sieving operation to disintegrate it into relatively small particles before it is subjected to the final drying operation.**

REPRODUCTION, WITH ADDED EMPHASIS,
OF TEMPLETON'S 1949 PROPOSALS
(DX 8, III–pages 47 to 58, incl.)

EXPLANATION OF U.S.A. PATENT POSITION

1. The first man to find out and teach that cooked potato may be divided to the form of a damp powder after **reduction of its water content by 50% of the original weight was ARNOLD FAITELOWITZ.**

Faitelowitz worked at a laboratory in Paris. He had devoted himself for many years to this problem which had defeated the best brains of the vegetable drying industry for half a century. Upon finding the solution above mentioned, he described it in Document No. 822795 granted as a patent in France on the 7th January, 1938 on application dated 8th June, 1937. This is the first record as far as the writer is aware anywhere in the world which fairly and clearly describes the prerequisite condition which Faitelowitz discovered as the means of making a powder out of potatoes in which the cells individually or in small clusters can be rendered in a substantially undamaged condition and therefore be capable of reconstitution into mashed potatoes.

Since this date, there have been many applications for patents for the production of the same or similar product in France, United States and the United Kingdom but as far as the writer is aware, no other person in any of these countries is able to proceed at all without using the discovery first outlined by Faitelowitz.

Amongst these applicants are the Doctors Volpertas and Rivoche. These differ from the others in that in fact they were co-workers with Arnold Faitelowitz in the laboratory referred to at Paris and each of them made claim to have added to the work of Faitelowitz a significant and patentable improvement, e.g.

(a) **Volpertas** showed that by using the equivalent step of **adding back the end product to the freshly boiled potatoes instead of preliminary drying by heat as suggested by Faitelowitz,** the same result could be more easily obtained, that is to say, the mashed potato could be

separated into the prerequisite damp powder much more quickly and less expensively and thereafterwards Volpertas' process was substantially the same as Faitelowitz; in short, he proposed a quickening of the first stage of the process.

(b) Rivoche then showed a further improvement on Volpertas. In that the disadvantage of the latest contribution was the large amount of the end product which had to be reserved from sale in order to be available for re-mixture, Rivoche proposed improvement to avoid this disadvantage. He found and described that by cooling the cooked potato to the point of freezing, it then became possible to remove a substantial quantity of the water (as taught by Faitelowitz) by the alternative of mechanical means, e.g., centrifuge or pressure. By these means, Rivoche was able to reduce the water content without heat and without dry admixture and obtain the damp powder without the foregoing disadvantages and he proposed the use of dry admixture only as a supplementary step, as it were, for those occasions when the mechanical methods did not quite eliminate enough water for the final drying.

These three steps are described in the three American Documents No. 2119155, No. 352670 and No. 4533.

NOTE: For priority purposes, it must be appreciated that Faitelowitz dates from 1936, Volpertas from 1938 and Rivoche from 1939. Delay in their applications for grant in the U.S.A. was occasioned by war circumstances.

Dr. Rivoche is working on a further improvement which he hopes to protect in due course.

There are two other documents, No. 2381838 and No. 2439119, granted as U.S.A. letters patent to Theodore Rendle - Chivers & Company, England - and Arthur Willett and Theodore Rendle - M.P.P. Products, Englan respectively. These documents are dated August 7, 1945 and April 6, 1948, that is to say, several years subsequently to the dates of Faitelowitz, Volpertas and Rivoche.

The similarity of these subsequent grants, Rendle and Willett-Rendle, when compared with the original inventors' will be remarked. It is believed that the current production of mashed potato powder in the

U.S. by the R.T. French Company proceeds under license from the Rendle and Willett-Rendle grants and the F.M.S. Company believes that such manufacture infringes the art disclosed in their original documents in favour of Faitelowitz, Volpertas and Rivoche.

COMMENTARY ON EXISTING PLANT

One or another of the processes within the patented range can be adapted to practically the whole of the plant which I saw at Caldwell and/or was described to me as available to be installed at Caldwell, having been extracted from other nearby factories.

For example, one or all of the tunnels could be used if need be. The large cyclone is ideal for the job of reducing the moisture from about 45% to about 20%. The Proctor-Swartz can serve equally well to reduce from normal moisture to 50-50 or being dressed in a cloth to close the perforations of its band, this machine will serve equally well from 20% to 10% or below. The centrifuges should be satisfactory in removing large quantities of water mechanically after freezing and the freezing apparatus seems capable of taking care of a very large capacity.

In a separate document, I have proposed an immediate commercial start upon a modest scale likely to yield a production of 30 tons per week, using the Proctor-Swartz followed by conditioning hoppers, followed by percussion grinding, followed by hot air conveyance, finished by rotary driers. For this purpose I have to exclude the large cyclone, the capacity of which is too high.

Subject to Mr. Kuhneman's further advice, I take the capacity of the large cyclone to be of the order of 1,500 pounds of moisture per hour when served with air at say 250-300 F. It follows that for the final stage of commercial operation, this machine is likely to fix the capacity of the plant leading up to it on the one hand and following from it on the other.

This means that if the damp powder entering the large cyclone is to be 45% of moisture and the offtake product is to be 20% of moisture and the machine is to work at capacity, say 1,500 pounds, then approximately 4,600 poun of damp powder at 45% moisture or 2,070 pounds moisture will be its "appetite"

more or less. Looking downwards, 4,600 pounds should convert through this cyclone to 3,100 pounds containing about 570 pounds of moisture which thereafterwards by flat drying or gentle rotaries must be reduced further by about 300/350 pounds moisture thereabout, a comparatively easy task capable of arrangement by one of several methods.

Looking in opposite direction, the feed or appetite of the cyclone at 4,600 pounds at 45% of moisture will require the elimination of 8,050 pounds of water (depending on the moisture content of the potatoes) by centrifuge or other mechanical means and it follows that the intake capacity of the plant will be of the order of 12,650 pounds cooked potato yielding 2,700 pounds dry solids or approximately 130/160 tons per week, depending on number of hours worked.

It is quite clear that the Caldwell factory with the accessories that are understood to be available is capable without further capital outlay for new machinery of turning out considerable quantities of mashed potato powder but as stated in the foregoing, it would be unwise to make a firm recommendation as to the nature, size and scope of the full scale commercial process until further information has been ascertained by laboratory studies as to the behaviour, flavour and colour of the Idaho potatoes which are to be the subject of the operation.

PROPOSALS FOR IMMEDIATE LABORATORY WORK

1. On Friday, the 4th March, at Simplott laboratory, Caldwell, I demonstrated the production of mashed potato powder by each of the three genera proposals thus:

(i) Faitelowitz - two samples of differing particle size

(ii) Volpertas - one sample

(iii) Rivoche - two samples by two methods within his proposals

2. The conditions under which these samples were produced were not ideal and for the continuance of necessary laboratory work, two pieces of equipment are essential:-

1. A convenient laboratory scale drier for which I recommend the rotary type and have cabled F.M.S. London to forward drawings of their own laboratory drier.
2. A stronger centrifuge necessary to give more accurate data as to the quantity of water which may be expressed from Idaho potatoes after freezing with true guide as to the loss of solids therein.

I recommend these two pieces of plant be got as quickly as possible.

3. Such facilities being available, I recommend a series of further tests:

(a) In accordance with the teaching of Faitelowitz, that is to say, drying down shreds of riced or broken pieces until they have lost 50% or at the most 60% of their initial weight, then equilibration (natural and cold) before final drying. These tests will establish more definitely whether any advantage is to be found by freezing after pre-drying. They will also establish a flavour-colour basis which should be the truest reflection of Idaho potatoes which can be obtained by any means within the patented range because in this case, there will be no dry re-usage and there will be no loss of solids by mechanical extraction.

(b) In accordance with the teachings of Volpertas:- The one test done last Friday served only to illustrate the ease and convenience of this method. I had to use English seed in the finished product which was produced and proportion was still high in relation to the addition of solids from Idaho potatoes. It will be wise to continue with the bulk sample which I left behind a series of further tests having as object the gradual elimination of the English seed so that you will finish with a product which is substantially 100% Idaho potato solids, and so be able to check colour and flavour of this method more accurately.

The same experiments should be adapted to enable you to draw a second broad conclusion, viz., as to what is the smallest proportion of dry admixture which can be added to the freshly boiled potato when applied to Idaho potatoes. I would expect that you will find that an admixture of one part to five parts by weight would be about the minimum at which you can go in the type of apparatus which you are likely to be using in your laboratory, viz., a rotary drier.

(c) In accordance with the teachings of Rivoche, I suggest that you develop further each of the two experimental approaches which were demonstrated on Friday. It was clear that the extraction of liquor after freezing by centrifuge and alternatively pressure, some of the colouring matter of the potato with other solubles came away with the water. The figure of 5.9 solids needs substantiation under conditions by which you will be able to apply centrifugal force much greater than that which was available on Friday and nearer to what you may expect to apply under commercial conditions. Although the samples which we produced indicated that the loss of flavour was not critical and the improvement in colour was marked, it is still desirable to establish these impressions much more firmly before we can contemplate commercial operation applied to Idaho potatoes by this particular process out of our range of processes.

PROPOSALS FOR COMMERCIAL OPERATION

I reserve my views as to the best method of setting up substantial commercial operations to await the first stage of preliminary laboratory work which has been outlined in the previous document and before giving my final advice upon this matter, I shall require further direct discussion in the joint interests of both companies and having regard to the proposed undertaking by my company that the risks of infringement shall be assumed by my company.

However, after further discussion with Mr. Ray Kuhneman on Saturday last, I am satisfied that a quick start can be made upon one basis of commercial production which will meet Mr. Kuhneman's point of providing useful experience and alternative outlet during the period of government demand for potato flour and will meet Mr. Simplott's point that he wishes to be recognized as a producer and seller of mashed potato powder as quickly as possible.

To achieve these purposes, it must be accepted that no attempt at the moment will be made to sell the product produced domestically in packet, that sales would be limited to armed services or government departments in bulk, for which I understand order will be made available, and for experimental and limited transactions in the institutional market. The method by which goods can be produced practically forthwith on the plant which is available

will have to follow the teaching of Faitelowitz and I make the following proposals which I should add I am able to make only after the further discussion and with the helpful advice of Mr. Kuhneman.

1. Use the evaporating capacity of the Proctor-Swartz machine stated at 1,000 pounds per hour to reduce the cooked potato in the form of rice from 2,000 pounds to 1,000 pounds of take weight.

2. Since 2,000 pounds cooked riced potato will be at about 1,500 pounds water content, it follows that the offtake product will contain 500 pounds of water in association with 500 pounds of solids which conforms with the teaching of Faitelowitz practically exactly.

3. Trial and error will show whether it is better to use a longer drying time with humidified air in Proctor-Swartz machine, so avoiding case hardening or whether it is better to use dry air in quicker drying time and to allow equilibration as the cure of case hardening immediately after the drying. The ultimate result is of course the same. Of the two, I prefer the second.

4. Assuming the second course to have been adopted, it will be necessary to have at least two conditioning hoppers after Proctor-Swartz each having capacity for one or at the most two hours offtake of the machine, such hoppers to be fed and discharged alternatively and preferably to be banded with a cooling solution which will have the effect of adding equilibration and limiting tendencies towards off-flavour.

5. It will be sufficient to drop from hoppers (#4 above) to impact grinder and the cells should not suffer damage so long that the moisture content at that time between say 40 to 50% is reasonably evenly distributed throughout the riced particles and if a current of warm air is used in the conveyance of the ground damp powder to cyclone, it will be found that the requirement for final drying can be performed in 2/3 steam heated mixers of approximate dimensions 10 feet by 3 feet with any simple paddle device, the ends thereof clearing the sides by at least one sixteenth of one inch.

I think that a production of 500 pounds to 550 pounds mashed potato powder containing say 8% residual moisture can be secured promptly by the flow indicated above and in consequence it might well be possible having regard to Mr. Kuhneman's point and Mr. Simplott's policy to make and sell something better than thirty tons per week of the product, commencing promptly and I recommend this be done for the good reasons which both of these gentlemen have proposed,

leaving the wider and more vital issues of the final selection of commercial process for larger operation to follow in due course out of the laboratory work which has been formulated heretofore, and such selection would undoubtedly be greatly aided by the limited commercial practice which I accordingly recommend should be started as soon as possible.

SALES POLICY

Of the various matters to which I have addressed myself and offered advice herewith, none is in my view of greater importance than the matter of sales policy.

The Heads of Agreement require acquiescence between us in three qualitative standards as controlling the issue of product for sale in the three main divisions of the anticipated total market. I wish to extend this provision by recommendations as follows:

(a) Bulk purchases by the armed services or departments of the Government.

The standard here must be based at such a level as will give non-sticky mach of good appearance and good flavour which will be for the laboratories on both sides to agree but probably will not need to be quite so rigid as that for

(b) Bulk purchases by institutions,

where the discrimination of second and third buying as opposed to trial order buying is generally found to be rather higher than in the case of (a) above and again by agreement between the laboratories on either side the specification of quality must allow for this factor.

(c) Domestic purchases by individual consumers (the packetted trade).

In this case it is my view that the experience in the United Kingdom demonstrates adequately that the product produced satisfactorily and in very large quantity for markets (a) and (b) above has not been good enough to hold steady and reliable trade amongst the highly discriminating area of

domestic demand and I recommend that the laboratories on either side should defer any attempt to set up the requisite standards in this case until as a result of the laboratory work which is called for in separate document hereto, a much greater experience has been gathered as to the influence of our processes on flavour and appearance upon Idaho potatoes.

I do not see at the moment that the F.M.S. Company or its proposed subsidiary, F.M.S. (America) Inc., can assist the Simplott Company in the matter of sales of mashed powder in market (a) but I do think that in marketing (b) and especially in market (c), that the proposed subsidiary may be of very considerable help and whilst it is clearly in no one's interest that anything should be done to limit sales endeavor, I think it must be agreed that the fullest discussion and cooperation should take effect at all times in connection with marketing in these second and third channels.

I also recommend that F.M.S. (America) Inc., quite apart from and additional to the Simplott Company, should be active in the marketing sense and that having regard to the possibility of demand arising from the R. T. French Company which has been discussed with Mr. Simplott and having regard to the policy of F.M.S. (America) Inc., to become an active force in the job of marketing generally, it should be inherent in the understanding that the Simplott Company will supply (subject reasonable and proper notice) through F.M.S. (America) Inc., to the extent of reasonable and agreed tonnages in accordance with discussions which will require to take place from time to time.

A very wide experience of marketing has been accumulated in United Kingdom and elsewhere in regard to mash powder as well as other products. **It is quite clear that success in the present development generally is more dependent upon the solution of marketing difficulties rather than production problems** and these matters must be worked out between the parties who will arrange to meet regularly for that purpose.

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

TEMPLETON PATENTS, LTD., *Plaintiff-Appellant,* vs. J. R. SIMPLOT COMPANY, *Defendant-Appellee.*	)	No. 18899
TEMPLETON PATENTS, LTD., *Plaintiff-Appellant,* vs. J. R. SIMPLOT COMPANY, *Defendant-Appellee.*	)	No. 18900

APPELLANTS REPLY BRIEF

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PREFATORY NOTE

This single Appellant's Reply Brief will answer both Appellee's Brief in the "Patent Case", 18899 (herein cited to as "99 D. B.") and the one in the "Contract Case", 18900 (herein cited to as "00 D. B."). There is so much "contract" argument in appellee's patent brief and so much "patent" in appellee's contract brief that undue repetition can be avoided and appellee's inconsistencies most effectively pointed out in this way. Unavoidably, this "two-in-one" reply will exceed the twenty pages allotted by Rule 18. 2(e) for a reply in a single case; it will not, of course, exceed the forty pages appropriate for two cases.

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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APPELLANT'S REPLY BRIEF

I. DEFENDANT'S DISTORTIONS EXPOSED

Appellee's two Briefs vindicate the Baconian aphorism that the search for truth is hindered less by error than by confusion. It is easy to correct errors, it is less easy to dispel confusion. Before turning to the various legal arguments advanced by defendant-appellee, plaintiff's counsel will discharge a duty, not only to their client, but to this Court, by exposing the most flagrant distortions of the record employed by defendant.

Defendant states falsely, for example, that Judge Taylor found one of the patentees to be a copier, that Templeton had no rights under any patent in March 1949, and that only claims 3 and 7 of Volpertas, those in suit, are directed to potatoes. The brunt of defendant's false statements is reserved for Mr. Templeton. Distortions, amounting in substance to fabrication, are used to attack his expertise, his good faith in negotiating with defendant, and his credibility at trial. All of these

distortions are succintly exposed in the sub-sections that follow:

(a) Did Templeton Fail to Recommend Addback in 1949?

Defendant castigates Templeton for his failure to recommend addback to Kueneman in March 1949 (99 D. B. 59). He implies that Templeton withheld the one process which he knew was worthwhile and beneficial. A serious charge if true; however, it is false. Kueneman wrote to Troxell on March 16, 1949, describing the processes demonstrated by Templeton. One of the three processes was the Volpertas addback (PX 9, III-231) which Kueneman, at the time, discounted (T. 874).

Simplot had in 1945-46 begun to make granules by an early "freeze-squeeze" process (PX 9, III-228) which Kueneman still regarded as good. In the above letter he stated:

> "We definitely do not wish to rule out the original processing plans since they may eventually prove to be superior to those proposed by Templeton on his current visit." (PX 9, III-229)

Mr. Dunlap, Simplot's Food Technologist, stated in contemporaneous notes that the Rivoche "freeze-squeeze" appeared "the most practical approach" and gave the best product; the second best product was made by the hot air drying of Faitelowitz and the poorest product was the addback (PX 10, III-234-240).

Mr. Templeton made two recommendations. First was to begin production promptly on a modest scale, using existing equipment which limited consideration to the Faitelowitz hot air predrying (PX 8, III-50) since Mr. Simplot wished to be recognized promptly as a granule producer (PX 8, III-55). Second was to begin a broad range of lab work to determine the best particular process for the unique flavor and color of Idaho potatoes (PX 8, III-52; PX 9, III-231). It thus is just not true that Templeton failed to recommend addback.

(b) What Templeton Owned in 1949

In both briefs (99 D. B. 58, 00 D. B. 15), defendant asserts that plaintiff had no rights to back up his offer in March 1949. It ignores that the previous fall Volpertas and Rivoche had granted to Templeton the entire right to exploit their patent rights in the U. S. A. through an exclusive license with right to sublicense all their rights in the F-V-R patents (DX 15, I-12). This ignoring of plain matters of record repeats in this litigation the same conduct plaintiff has complained of in Mr. Beale that thwarted the realization of the Templeton-Simplot "deal" of 1949 and made the litigation necessary. If it were true that Mr. Templeton had no rights in F-V-R in March 1949, it was and is a very serious charge against Mr. Templeton. If, however, such assertion is sham, it is an equally serious charge against one who makes it to cause negotiations to fail and urge dismissal in this Court.

(c) Was Rivoche an "Original" Inventor?

Defendant misrepresents the trial court findings when it says (99 D. B. 53) that Judge Taylor found Rivoche was not the original inventor of the subject matter of his claims in suit. As defendant well knows, the twin statutory requirements that an applicant be the "original and first inventor" (R. S. 4920) are now expressed in 35 U. S. C. § § 102(a) and (f). The applicant must be first and he must in fact be an inventor, not a copier. The Court, contrary to what defendant says, found that Rivoche was, in fact, an original inventor ("his improvement", "Rivoche's contribution", 99 R. 112). Defendant's charge that the Court found Rivoche a copier (and necessarily a perjurer, 35 U. S. C. §115, PX 3, II-94) is completely false.

(d) Repudiation

Defendant again misrepresents for its benefit the Trial Judge's Findings.

It asserts without citation that the trial court found that the plaintiff, by refusing to execute any contracts prepared by defendant, repudiated any supposed agreement (00 D. B. 43). What the record shows is that defendant prepared one draft "forwarded on December 16, 1949. . . substantially differing from the initial proposal" (Finding VIII, 00 R. 47) which plaintiff did refuse. The substantial difference was, of course, that Troxell blandly proposed to extend the "free option" of the original proposal well into an additional year.

(e) Termination

Defendant falsely asserts that Templeton "terminated" in the fall of 1949 (00 D. B. 43). This is contrary to both the Findings and the evidence. The Court found:

Templeton by letter advised he would terminate unless the parties came to terms (Finding VIII, 00 R. 47).

The letter the Judge had reference to is quoted by defendant elsewhere (00 D. B. 11). Defendant's response was a meeting in New York City (PX 8, III-144) followed by its own proposed Troxell draft, and negotiations continued without any repudiation.

(f) Templeton's Expertise

Defendant states Templeton credited Faitelowitz with being the first to observe a potato under microscope (99 D. B. 19). If true, this might well reflect on Templeton's expertise in the field. The record shows the complete opposite, however. It was Mr. Beale who suggested

such a thought and Mr. Templeton who refused it (T. 1410).

Defendant also attacks Mr. Templeton's expertise because he did not know that "biltong" was South African jerked meat (99 D. B. 51). While it is quite possible that Mr. Templeton is out of touch with developments on the African Veldt, defendant has not proved it in citing its expert Kueneman's testimony about his own travels. The "biltong" matter is just another example of innuendo against the qualification of plaintiff's expert witness based on fabrication.

(g) Judge Taylor's Suspicion

Defendant (99 D. B. 10) implies that the nature of Mr. Templeton's testimony led the Judge to consider that Mr. Templeton's obvious and unconcealed interest reflected on his credibility. Plaintiff has to admire the abandon, if not the discretion, with which defendant now tries to distort its own faux pas to its present benefit. A glance at the testimony, reproduced for convenience in the Appendix hereto at p. A-1, will show that Judge Taylor's comment was a combination of exasperation and amusement when defendant's counsel, after a lengthy foundation of Templeton's past business experience and plaintiff's historical corporate existence, proved by admission that Mr. Templeton was in fact the Templeton of Templeton Patents, Ltd.

(h) Disclosure of Title

Defendant twice asserts (00 D. B. 7 and 14) that plaintiff made no disclosure of the Faitelowitz title infirmities at the March 1949 meeting to either Simplot or Troxell. An interesting thought but untrue.

> "[Troxell] well he delivered to me a copy of the Faitelowitz patent. . . He told me 75 percent had been assigned to a man named Bunimovitch. . ." (T. 1310).

Thus defendant is contradicted by his own witness. Templeton disclosed all the information he then had about the Faitelowitz title. Every copy of the Faitelowitz patent sold by the Patent Office since 1938 has borne on its face "assignor of seventy five percent to Marcos Bunimovitch". (PX 1, I-6).

(i) Government Negotiations

Defendant accuses Templeton of bad faith because he went from Boise to Washington in 1949 to negotiate with the Government (99 D. B. 57). The record shows that his purpose was to find a customer, not a competitor, for Mr. Simplot (T. 737) as he wrote him that month (PX 8, III-72).

(j) Maine Potato Drying

Defendant accuses Mr. Templeton of bad faith in negotiating in 1949 with the Government about certain potato drying in Maine and in concealing his relationship to a firm other than Simplot operating in that state (99 D. B. 57). The facts are completely contrary. The Maine firm involved, Westfield Starch Company, was then interested in producing potato flour* (T. 833, 838), a prior product completely different in composition and use from the granule product here involved. Mr. Templeton was never even asked if this was the same company which

* Although the name is similar neither infringement nor breach is proved or disproved by verbal similarity. Templeton described potato flour at the trial as "a product which is almost like bill stickers' past, it's gooy and gluey and you can almost pick it up as one." (T. 219-220). It is used as indirect human food (T. 246).

the previous year had expressed an interest in granules although it undoubtedly was (T. 681, 682). In short, the only concealment and misrepresentation was by the defendant before this Court.

(k) Plaintiff Held to the Bargain

Defendant asserts that plaintiff by licensing others in July 1950, violated the agreement (00 D. B. 43). This is a completely false assertion. The "Heads of Agreement", Edmonds' "Draft", and "Annotated Heads" all stipulated that if the first year minimum royalties were not paid, the license would become non-exclusive. Plaintiff punctiliously held to the agreement thus evidenced.

(l) Hume Negotiations

Defendant (99 D. B. 57; 00 D. B. 6) finds plaintiff to have had "unclean hands" and Templeton to have been guilty of bad faith in going from Boise to San Francisco and there discussing granules with the Hume interests, inferentially "double-dealing" with Simplot. If there were truth in this allegation, it would do much to destroy plaintiff's contract theory. On the contrary, it shows the deceptive possibilities of a half truth. Mr. Templeton had met the Humes in 1945 (T. 668) and did meet them again in 1949, as he wrote Simplot (PX 8, III-73). But what he wrote Simplot (PX 8, III-73) in conspicuous candor about the role to be assigned Hume in the development of the industry in the U. S. was simply that Hume might effectively "handle part of this [the institutional trade] division" in parallel to a like role to be handled by Templeton's own proposed "FMS (America) Inc.", i. e. marketing of product made and supplied by Simplot (PX 8, III-58).

(m) The Recognition in Britain

Defendant asserts (99 D. B. 64) that Templeton was making a statement "contrary to fact" when he claimed that the F-V-R patents had been sustained and recognized in England. To bolster this assertion defendant urges that Templeton admitted on cross-examination that only Volpert II, in British counterpart, had been "sustained". The implication, false, is that the others were either not owned or not sustained or not recognized. Both Volpertas' patent and Rivoche's were involved in the British litigation; but the issue was narrowed to Volpertas II (T. 680); and no patent was finally adjudicated as the opposer withdrew and took a license under the British Volpertas and Rivoche (T. 679) with a right to acquire a United States license under all F-V-R patents. In short, Templeton was accurate in saying the patents had been sustained and recognized and defendant attempts to distort the record to imply otherwise.

(n) The Myth of "Mutual Exclusivity"

Defendant asserts (99 D. B. 7; 00 D. B. 42, 47) that Templeton admitted the several methods of the patents were "mutually exclusive". This is a gross distortion of his testimony and plainly contrary to the basic premise of this lawsuit and the facts. After several pages of cross-examination of the several applications, Mr. Templeton said:

> ". . . . you can do throughout the Faitelowitz principle, subject to that one qualification, you can do Volpert add-back without any further assistance." (T. 787).

While Mr. Templeton's syntax was wearing thin on the evening of his fifth day of cross-examination, his meaning was clear. He used "principle" to mean "invention" and he said that the practice of every

one of the various particular methods of Volpertas and Rivoche used the Faitelowitz inventive method of two-stage drying with the intermediate production of a moist powder, and that you can use Volpertas outside the Rivoche requirement. While defendant is free to deny Mr. Templeton's conclusion, it is not free to assert that Templeton testified to the contrary.

(o) Plaintiff's Arguments Misrepresented

(i) Defendant states (99 D. B. 55-56):

> "Plaintiff now asserts in this case that defendant is licensed and therefore cannot contest validity."

This is an interesting thought, but is not what plaintiff said on page 13 of its brief. What plaintiff did say was that if defendant is established to have been "a licensee" it "has obvious bearing on the patent issues". This is, of course, true, especially in that plaintiff cannot recover against defendant once as a licensee and again as an infringer for the same pound of product.

(ii) Defendant states (99 D. B. 62) that

> "plaintiff's position is that publication by Rivoche [in 1950] received immediate commercial acceptance. This is absurdity on its face."

Absurdity it is, for plaintiff never said it and it is contrary to fact. Rivoche's French patent was published in 1942 and his English in 1948 (DX 21, II-25).

(p) The Exclusive Provision Not Withdrawn

Defendant asserts (99 D. B. 57) that plaintiff is guilty of bad faith because it offered, then withdrew, then re-offered an exclusive license. Another fabrication of the record. All three were exclusive licenses (even if Mr. Edmonds' draft did not say so *ippisimus verbis*). See

Mechanical Ice Tray Corp. v. General Motors Corp., 144 F. 2d 720 (2 Cir. 1944). To say Mr. Edmonds withdrew this feature is completely refuted by the record.

(q) The Rivoche U. S. Disclosure and Claims

Defendant asserts the Rivoche U. S. disclosure was "extensively and improperly changed" (99 D. B. 6); the submission of the claims in suit was "coldly calculated" and "violated nearly all the patent statutes" (99 D. B. 40); and that the claims were "interloper" claims (99 D. B. 43). Such an assertion would be sound, if, in the Rivoche U. S. application as filed, there was no disclosure of the "addback-to-moisture-level-below-50%" method or claim to distinguish this and of the Rivoche invention from "freeze-squeeze" and other variants. Since there were both in the application as submitted, reproduced for convenience in pertinent part in the Appendix hereto at page A-2, defendant's assertions are a gross distortion of the record.

(r) The Attempted Misconstruction of 35 U. S. C. § 104

Defendant suggests that the testimony of Mr. Templeton concerning the demand for an instant mashed potato product and the circumstances surrounding the making of the inventions of the patents in suit was inadmissible (99 D. B. 5-6). It does so by a distortion of the accepted (and clear) meaning of 35 U. S. C. § 104 so gross as to raise a question of sincerity. By its terms, § 104 relates only to proof of dates of invention. Plaintiff accepts without question that its dates of invention are those established by § 119, i. e. the relevant foreign application dates. But the state of the art under § 102 and the matter of obviousness under § 103 are illuminated by evidence from all over the world, both as that evidence may tend to sustain or disprove the fact of invention. Mr. Templeton's evidence

II. FEDERAL RULE 52(a)

This Court had undoubtedly observed that the true definition of an unreviewable finding of fact, as it may be gathered from various appellee's briefs, emerges as any statement made by the trial judge favorable to the appellee. The defendant here enlarges on this theme somewhat. It apparently believes that the above rule not only insulates its present position, but gives it a special warrant to attack every finding unfavorable to it.

In the patent brief defendant argues that Faitelowitz is a "paper patent" and "fatally indefinite", Volpertas was "limited by prior art" (despite the assertion he was the father of addback [99 D. B. 53]), Rivoche was anticipated by art other than Faitelowitz and Volpertas, and that there was no peacetime demand for granules during 1945-1949. These assertions are contrary to Findings V, VI, VIII and XXVIII (99 R. 97-99, 113). Defendant joins plaintiff (99 D. B. 22), albeit for other reasons, in attacking Finding XVI (99 D. B. 104) which stated that the direction to predry at less than 105° C. meant dry by heat. Defendant's position is that the Court was wrong, the direction means dry at any temperature below 105° C., and is therefore fatally indefinite.

In the contract brief defendant repeats the nonsense about peacetime demand, and expressly attacks the Judge's Finding IX (00 D. B. 25) that Templeton supplied technical information of some benefit. It would thus appear that the defendant's case, not the plaintiff's case, really depends on a de novo trial of factual issues, not merely on the review of conclusions denominated as facts.

Defendant, in both briefs, appears unhappy with plaintiff's statement of the case. It carefully avoids, however, pointing out wherein that statement is inaccurate. This Court might well find that defendant

has "accepted" it. Defendant, in the patent brief, strongly urges that findings based on disputed testimony should be respected. Characterizing one's own expert witness as an "independent engineer of high qualifications" and the opponent's as a "self-appointed expert and at times oracle" does not create a conflict in testimony (99 D. B. 9-10).

Defendant at 99 D. B. 63 further asserts the novel theory that this Court is precluded by F. R. Civ. P. 52(a) from deciding the issues of validity of Faitelowitz and Volpertas and infringement of Rivoche because the Trial Court did not eo nomine state his legal conclusions on these matters. Faitelowitz, the Court found, made "the first substantial contribution to the art of processing an instant mashed potato powder" (Finding VI, 99 R. 98). "It served as the basic idea for successful processes which followed his initial breakthrough" (Finding VII, 99 R. 99).

Volpertas is admitted by the defendant to be "the father of add-back" (99 D. B. 53). "Volpertas was the first to apply it (add-back) to a process for making an instant mash potato powder"(Finding VIII, 99 R. 99).

Rivoche, plaintiff repeats, is literally infringed. While defendant says "infringement... is by no means conceded" (99 D. B. 63), defendant's own description of its process (99 D. B. 26-27) when compared with the Rivoche claims in suit (99 D. B. 40a) make such a concession redundant.

As this Court has repeatedly ruled, a remand for additional findings is unnecessary if the record enables this Court to gather a full understanding of the question presented. Jones & Guerrero Co. v. Smith, 292 F. 2d 815, 818 (9 Cir. 1961); Yanish v. Barber, 232 F. 2d 939, 947 (9 Cir. 1956).

III. THE FAITELOWITZ PATENT

An Englishman's "Admission"

This Court undoubtedly remembers the famous egg who said, "When I use a word, it means just what I choose it to mean - neither more nor less."

Defendant not only rests its case squarely on Humpty Dumpty, it carries it one step further. When Mr. Templeton uses the word "principle" it means just what defendant's counsel now chooses it to mean - nothing more and nothing less.

At the risk of dignifying this argument, plaintiff would like to point out that Mr. Beale's present artificial insistence on the distinction between "principles" and "methods" is compromised by his own past usage. At trial when Mr. Beale meant the Faitelowitz hot air pre-drying method, he said principle (T. 564), when he meant the Volpertas addback pre-drying method he said principle (T. 665) and when he meant the Rendle (Rivoche) method he said principle (T. 684).

In our Main Brief (pp. 87-88) it was pointed out that Mr. Templeton, a layman, used "principle" consistently to mean the pioneer invention of two-stage drying with the production of a moist powder as an intermediate product and "method" in the sense of "exact procedures and apparatus".

To quote defendant's opening statement at trial:

> "...Congress provided in the new patent Law [1870] there was a burden on the inventor not to attempt to cover a mere principle or idea of what he wanted to do but there was a requirement to disclose so that posterity could use it after the expiration of the patent - the how to get from here to there." (T. 946)

This is plaintiff's case. Faitelowitz tells how to turn a potato into a dehydrated powder, reconstitutable as a palatable dish of mashed

potato. Defendant has cautiously avoided answering plaintiff's contention (Main Brief, pp. 81-96) that the direction to produce a moist powder between the stages of a two-stage drying of a cooked potato is a description of "process" within the meaning of 35 U. S. C. § 101 and patentable if the other requirements of Title 35 are met. Defendant has not controverted plaintiff's assertions that the only "unpatentable principles" within the meaning of the decided cases are descriptions of results without directions and laws of nature without a stated practical application.

Disclosure of Cells and Drying

Defendant's attacks on the disclosure are equally without merit. Defendant solemnly asserts (99 D. B. 17) the disclosure fails to reveal cell or granule separation because, when written in 1937, it failed to use terminology popular in 1962. Defendant goes on to assert that because an 1898 patent uses the word "granule" it anticipates Faitelowitz' invention (99 D. B. 19).

> "That's a great deal to make one word mean," Alice said in a thoughtful tone.
>
> "When I make a word do a lot of work like that," said Humpty Dumpty, "I always pay it extra."

Defendant's attack on the temperature directions recognizes the error in the Judge's findings but to reach its conclusion requires the assumption of a false rule of law.

As mentioned earlier, the Judge found (Finding XVI, 99 D. B. 104) that the direction to predry "at a temperature which also must not substantially exceed 100°C. [i. e. 105°C., PX 1, I-6]" was a direction to dry by heat. In its Main Brief, pp. 82-87, plaintiff fully exposed this error. Defendant apparently agrees since it does not urge the

direction is erroneously specific; it now urges (99 D. B. 22) the direction is fatally indefinite.

It now asserts that the specification states no temperature at which the drying must be done. Its conclusion that the specification is therefore fatally indefinite requires the assumption that the law requires a patentee to limit himself to a particular temperature when in fact a broad range of temperatures will work.

Templeton demonstrated predrying by hot air at about 100°C. Both Templeton and defendant demonstrated predrying by addback at between 15 and 85°C. The "freeze-squeeze" or "freeze-thaw" predrying worked at 0°C. Defendant's position is therefore a denial of the rule that a patentee may claim the full range of his invention.

As Judge Soper said in Procter & Gamble v. Refining, 135 F. 2d 900, 906 (4 Cir. 1943):

> "There are many situations in the practice of the arts in which specific directions are properly omitted from the claims of patents because greater definition is....unnecessary to inform the art and would serve only....to invite evasion by those who desire wrongfully to misappropriate the substance of the invention."

See Minerals Separation Ltd. v. Hyde, 242 U.S. 261, 270 (1916).

Defendant correctly points out (99 D. B. 22) that if you construe different sections to invalidate, this like most legal documents can be made to appear ambiguous. Mr. Templeton answered this when he said:

> "If you give a little thought and time to the matter, I do say, trying to make it work, then you see that the left-hand condensation comes in line with the example." (T. 1609).

Thus, Claim 1, which directs predrying until loss of 60% "by weight of the initial water content", standing alone, might mean 60% of the moisture or 60% of the total. However, when read with dependent

Claim 4 which directs predrying until between 50-60% of total weight is lost, the meaning becomes clear. The same two directions (T. 1609) occur in the specification. Both make eminent good sense and are consistent when the direction of Claim 1 is read as removing moisture until 60% of the total weight has been lost.

The Prior Art

Perhaps the weakest argument defendant makes is its appeal to the prior art. To quote its own authority, this is "too little - too late". It might accurately be characterized as a paper patent defense. Not once at trial did defendant care to demonstrate the processes of its prior art. The only witness to testify about the prior art, other than Mr. Templeton, was Dr. Jackson. While he may be, as defendant advertised in his brief, an independent engineer of high qualifications (99 D. B. 9), his field was mass transfer and he had never been employed in the food industry (T. 1236). His testimony while correct merely recited the obvious. One reference showed mixing raw potatoes and dried particles to produce fodder while others show mixing wet and dry starch. If the prior art was really as pertinent then as defendant now asserts, would defendant have relied on a Professor of Chemistry testifying outside his field of expertise or would it have put on its own expert, Ray W. Kueneman, whom defendant proudly billed (99 D. B. 9) as a lifelong expert in the drying and preserving of food?

A Pioneer Contribution Deprecated

Defendant apparently asserts (99 D. B. 18, 61) there was clear error in Finding V:

> "The evidence discloses there had been a long felt need for an instant mashed potato powder." (99 R. 97).

To refute the trial court it theorizes there were no granules in the United States between 1945 and 1950 because there was no demand. This theory requires us to ignore the R. T. French granule production (PX 8, III-22) and Simplot's own competing attempts at freeze-squeeze in 1947 (T. 1000) and "Minute Potatoes" in 1948 (PX 8, III-24).

Defendant finds error in Finding VI:

> "The first substantial contribution to the art. . . . was made by Arnold Faitelowitz." (99 R. 98).

Defendant repeatedly characterizes the hot air pre-drying direction in the Faitelowitz patent as "wholly useless". However, defendant's own employees stated that it made a better product than the addback pre-drying direction in March 1949 (PX 10, III-236).

Defendant argues that if this Court will only ignore the findings quoted and facts recited and assume that Faitelowitz made only a small contribution, one can then read this disclosure very strictly and find he made only a small contribution. Or is defendant really only asserting that it is using the improvements (see Main Brief, pp. 94-96) of Volpertas and Rivoche on the hopeful theory that while infringing one patent may be actionable, infringing two or three is somehow commendable?

Infringement

Defendant has asserted that plaintiff has only "half-heartedly" applied the claims (99 D. B. 16). Lest this Court believe this charge, plaintiff has herein tabulated an application at page A-3, infra. Perhaps defendant's problem is that it does not understand that by proclaiming it "water cooks which changes the potato physically and chemically" (99 D. B. 26), it has not admitted use of the step "cooking the vegetables at a temperature which must not substantially exceed 100°C."

IV. THE VOLPERTAS PATENT

Disclosure of Addback

Defendant has apparently taken to heart the admonition of Ralph Waldo Emerson that "Consistency is the hobgoblin of little minds". It rises above such petty inhibitions. When addressing itself to the adequacy of the Volpertas disclosure it proclaims the disclosure is so clear that it admits of no interpretation but that of being directed solely to the "smear-scrape" of Volpertas I (99 D. B. 29-30).

However, when addressing itself to the subject of Rivoche it states (99 D. B. 52): "The 1944 patent in suit to Volpertas is an exact anticipation of [the addback] Claim 16 of Rivoche."

Plaintiff suggests this Court find that Volpertas III (the patent in suit) discloses predrying by addback by the defendant's own fervent admission.

Benefit of Earlier Filing Date

Sec. 120 of the Patent Law states in pertinent part:

> "An application... shall have the same effect, as to [the] invention, as though filed on the date of [a] prior application, if filed before... termination of proceedings on the first application."

This provision, statutory since 1952, merely codified a well-settled part of the earlier decisional law. 35 U. S. C. § 120: Revision Note. The Federal Rules (F. R. Civ. P. 15) expressly recognize the right of a party to amend his pleadings and reframe the issue within certain limits. The quoted section is a similar recognition of the wisdom of allowing a party to a patent application to redraft his "pleadings" more accurately when it causes no harm to other parties.

This is just what Dr. Volpertas did when he arrived in the United States in 1941. He saw his applications had been poorly presented and decided to exercise his right to redraft and resubmit the issue to the Patent Office without prejudice.

Defendant asserts that this Court has held "[i]n a situation, such as here," the doctrine of res adjudicata applied, citing Aetna Steel v. Southwest Products, 282 F. 2d 323 (9 Cir. 1960). The rule there announced was sound but quite inapplicable. The doctrine there announced, file wrapper estoppel, was that an applicant may not accept a rejection of certain claims, in that application obtain other claims which accede to and meet the rejection, and then urge that the allowed claims be construed to cover what was rejected. As the issue was not there presented, this Court obviously had no reference to an applicant's alternative right under Sec. 120 when it stated that his remedy for rejection was appeal under 35 U. S. C. §§ 141-146.

The defendant's arguments about res adjudicata and file wrapper estoppel with respect to Volpertas I and II are therefore without merit.

Infringement

Defendant's first argument rests entirely on a mistake of law. It asserts that a claim which says -predry-cool- mechanically convert into a moist powder is not infringed by a system which puts a water or steam cooked potato (212°F.) after some cooling (7-72 °F. drop) into a container with twice its weight of unheated (about 70°F.) seed (DX 47, III-159) and mixes it for five minutes. What emerges is predried, cooled, moist powder ready for final drying.

The defense is based on the not entirely accurate assertion it cools while it converts, whereas the claim is limited to cooling before

converting. There are two answers to that. First, is that until 1955-56 defendant cooled between 32 and 72°F. before it did any converting (T. 83) or mashing. But more importantly, the defendant has always produced the identical result, a predried cooled, moist potato powder.

The patent states the purpose of cooling is to render the cell walls more firm and prevent rupture (PX 2, I-42, col. 1, lines 40-45). As the defendant accomplishes this result by using this step, it is irrelevant that it cools, mashes and mixes simultaneously.

> "The transposition of some of the steps in a patented process, which does not change the principle, mode of operation, or result, does not avoid infringement." Craft-Stone, Inc. v. Zenitherm Co., Inc., 22 F. 2d 401, 403 (3 Cir. 1927).

Defendant proceeds to find three areas of non-infringement. First is its contention that "in the absence of mechanical pressure" excludes the mashing or pug mill mixing it performs. However, the specification at one point specifically speaks of mashing before predrying (PX 2, I-42, col. 2, lines 43-44) and elsewhere prohibit excessive agitation and pressure (PX 2, I-41, col. 2, line 38). With these directions and the prior application directed to "smear-scrape" it becomes clear, beyond peradventure, that Volpertas meant without such pressure as will rupture the cell (T. 1606). This direction defendant has consistently followed. In describing Simplot's operation Mr. Kueneman wrote in 1955:

> "...operations are designed to handle the product gently, avoiding mechanical damage to the fragile potato cell*** Clearance between the [mashing] rolls permits mashing the product without cell rupture." (PX 5, II-134).

On 99 D. B. 35 defendant argues strongly that it does not meet the 10°C. cooling of Claim 3 while conveniently ignoring the limitation of Claim 7 "cooling the mass" which defendant clearly meets. One does not avoid broad claims by avoiding narrow ones. Even as to Claim 3,

however, defendant's avoidance is only colorable since in the inter-partes test it cooled its moist powder in a Ducone airlift to 21°C. as soon as it was removed from the pug mill (DX 47, III-161).

Lastly, defendant argues it does not meet the limitation "in vacuo". Its entire argument rests on a fallacious and therefore wisely unstated assumption. That assumption is that "in vacuo" can only mean vacuum drying, a laboratory, not commercial procedure. However, the specification is quite clear that various amounts of vacuum or reduced pressure may be employed in the final stage as well as in the pre-drying stage. Claim 4 clearly contrasts the two terms. It specifically directs pre-drying by the vacuum drying laboratory method. e.g. "applying vacuum...until approximately 20 to 30 percent of the original weight has been lost [then] applying a higher vacuum for a loss of 25 percent more of the original weight." Claim 4 goes on to direct the final drying in terms identical with step (e) of Claim 7, save only one presently irrelevant adverb:

> "...drying the moist powder under moderate heat and [vigorous] stirring in vacuo, until the water content is down to about 12 to 15 percent." (PX 2, I-43, see Appellant's Main Brief, p. 110).

No clearer evidence could be presented that in vacuo meant, not laboratory drying, but drying under a slightly sub-atmospheric pressure (Finding XIII, 99 R. 103) and conditions of effective evacuation which defendant has admittedly always done. There was no controversy that the final operation could be carried out under positive pressure. Whether this might have avoided infringement this Court need not decide as defendant has always chosen to remain at reduced pressure.

Lastly, defendant appeals to the prior art to avoid infringement. Its assertion that plaintiff may not extend its claim to cover what was known is sound. Plaintiff may not prevent defendant from producing animal fodder by mixing raw potatoes and previously dried particles (Steffen). Plaintiff may not prevent defendant from drying starch by mixing wet and dry starch (Jahn and Sprockoff).

Defendant then nimbly jumps to the conclusion that if Claim 7 be read to cover its process it also covers the above. Defendant grandly ignores that it chooses to use cooked, not raw, potatoes and adds to them potato granules, not particles, which is undoubtedly why it produces a palatable mashed potato instead of Steffen's fodder. Further, it confines itself to the potatoes called for in Claim 7 ("white potatoes grown in Idaho", 99 D. B. 25, if you will) and not the starch of Jahn and Sprockoff. In short, as defendant chose not to move off the reservation, the title of another to adjacent land is irrelevant.

Defendant's arguments have done nothing to weaken the proposition that the Volpertas patent discloses his addback method, that he had a right to re-apply for it as he did, unprejudiced by the former unsatisfactory application, and that defendant is not only using the invention (admitted), but is infringing the claim.

V. THE RIVOCHE PATENT

Defendant has apparently conceded infringement since it directs its arguments solely to validity. These arguments may be grouped under the headings "OBFUSCATION" and "IRRELEVANCE". Plaintiff will treat each separately. The statement that the claims are vague, indefinite and ambiguous will not be answered because it is merely another unsubstantiated conclusion, this time with neither facts nor theory.

Obfuscation

Defendant argues at length perhaps ten reasons why if Rivoche failed to disclose his invention in 1939 the present claims are invalid. Defendant here follows a sound tactic, provided it is undetected. It argues its strong points and hopes it weak link, a mere allegation, will ride unnoticed on the coat-tails of the procession.

The September 1939 Rivoche British application upon which his U.S. application priority right depends, however, covered:

> "In order to produce a material with the moisture content requisite for carrying out the final stage***the material may be centrifuged or it may be subjected to a current of cold dry air, if desired under pressure, or alternatively it may be mixed with the material produced as a result of an earlier operation, or an equivalent material, in the manner described in detail below.
>
> "***use may be then made of the property of readily absorbing moisture possessed by the products ultimately resulting according to the invention, in that a product of this kind***is admixed with the material containing excess of moisture and thoroughly incorporated therewith, yielding a mixture in which the total moisture content is reduced below 50% by weight, so that this product can then be sent forward to the final drying." (PX 3, II-54-56).

Mr. Justice Bradley in Loom Co. v. Higgins, 105 U.S. 580, 586 (1881) made the peculiarly appropriate remark:

> "A great deal of testimony was introduced by the defendants to show that the patentee had failed to describe his invention... When the question is, whether a thing can be done or not, it is always easy to find persons ready to show how not to do it."

Here this Court might appropriately find that the question is whether the 1939 British specification does disclose the subject of the claims in suit, not whether defendant denies that it does nor whether defendant's Appendix to its brief quotes, in extenso, other passages from that specification which disclose something else to buttress its denial.

Irrelevance

Defendant seems to assert that the law is that an inventor disclosing two good ideas disentitles himself to protection of either. Rivoche sought to improve on Faitelowitz and Volpertas. One way was "freeze-squeeze", set out in his December 1939 specification. Another way was recognition of the importance of moisture limitation in the damp powder stage. This led to a 250-300% increase in addback over the Volpertas II proposal. This was described in his September 1939 specification. Thus the facts are that Rivoche was a prolific inventor; that he made another invention which for a time seemed the more valuable; and both inventions appear in the present patent. Though facts, all are irrelevant. As pointed out earlier, defendant's assertions that the addback claims are interlopers or new matter in the Rivoche patent in suit are contrary to the record. Note page A-2, infra.

Defendant sees something sinister in the fact that plaintiff in effect copied the claims of Rendle. Ever since 1793 (1 Stat. 318) the Patent Law has provided for the awarding of the patent to the prior of interfering applicants. The concept is simple. If two applicants disclose one invention, the prior inventor is awarded the claim. Rivoche disclosed the invention in a British application in September 1939 and this established his priority date. Rendle also disclosed the invention in a British application, filed in March 1942, though his priority date was 1943, since he missed his one-year "convention date" (R.S. 4887, now 35 U.S.C. § 119). In ordinary circumstances, Rivoche's application would have had to be on file here by September 1940. However, the invasion of France by the Nazis in May 1940 prevented this. The post-war Boykin Act allowed Rivoche and similar victims of World War II to file United States patent applications here and claim their earlier

filing dates as priority. This he did, and when the issue of priority was presented to it, the Patent Office decided it correctly. Mr. Fisher, Rivoche's attorney, acted within the applicable Patent Office Rule (now Rule 205).

Thus defendant has made a wholly gratuitous attack on two Patent Office Examiners by charging them with an "astonishing display of inexpertise" (99 D. B. 42). Presumably their "inexpertise" lay in not declaring an interference in which Rendle was precluded on the record from winning. The law does not require such useless acts.

VI. THE "INDISPENSABLE PARTIES"

In both defendant's briefs it is urged that a party is missing in the patent case. In 99 D. B. 64-66, the novel theory appears that plaintiff may not urge, as it did below (A-4, infra), that an assignment of an expired patent automatically conveys the right to sue for past infringement. In that brief, defendant also points out that plaintiff's title to Faitelowitz is dependent on certain Government documents which it alleges create a flaw in title without specifying what flaw or why. Was it that the Government returned its interest in a 75-25 percentage rather than 50-50? Or is defendant urging that the real indispensable party is the A. P. C. since he vested 125% and only returned 100%? In 00 D. B. 56-60, defendant cites Supreme Court and appellate decisions for the obvious proposition that in a suit for past infringement the owner of that right must be present. This brief, however, advances no reason why plaintiff is not that owner.

Defendant's contract counsel concludes from his analysis, that only Bunimovitch or his heirs are indispensable; patent counsel, that Volpertas and Rivoche also need be parties. This inconsistency indicates the insubstantiality of the entire issue.

VII. THE "OTHER" SIMPLOT LITIGATION CITATIONS ARE PERTINENT

Defendant protests (00 D. B. 35) the citation of four cases because defendant appears in a bad light in each of them. Hence, it argues, the cases can have no bearing on the present proceeding other than to prejudice defendant before this Court. Plaintiff will not shed crocodile tears over defendant's plight nor suggest that it does not find a "plus" value in these citations because they involve defendant directly. Plaintiff insists, however, that they are directly relevant to refute affirmative positions argued by defendant about Simplot's telephone habits and his manner of embarking upon "a vast, costly contract and program" (00 D. B. 8). The bases for the citations given in Appellant's Main Brief seem not only sufficient, but prescient.

Further, it is hard to find two contract cases more closely in point than Rupe and Archer, complained of. Archer v. J. R. Simplot Company, 289 F. 2d 596 (10 Cir. 1961) clearly shows the kind of unambiguous and categorical statement required by law (and used by defendant when it suited its purpose) to terminate an existing understanding. In J. R. Simplot Company v. Dallas Rupe & Son, Inc., 71 Nev. 111, 369 P. 2d 445 (1962) four mortgage note acceptances were "subject to inspection", and "terms and conditions being worked out along the lines of previous telephone conversations". Note the similarity to the wording of the "Heads of Agreement" and Mr. Templeton's correspondence quoted in extenso (00 D. B. 9-13). Chief Justice Badt dismissed defendant's contention, made there as here, that its oral commitments were too vague to be binding, noting that plaintiff's expectations were not unreasonable. It is defendant's misfortune that this judicial bar to welshing casts it in the role of welsher.

VIII. THE CONTRACT

Introduction

The confusion with which defendant has sought to surround all aspects of this case, visible in its distortions of the record already specifically set right, is nowhere more apparent than in its misstatement of the issue of the "contract" case and its repeated commission in arguing that case of two familiar logical fallacies, the first of which is known technically as "affirming the consequent", or more popularly as "begging the question", and the second as "the fallacy of the false disjunctive". We shall allude to both presently.

The question for this Court is not whether it should accept the findings unless clearly erroneous (00D. B. 4-41). The real issue, as plaintiff has said, is whether the findings as read in the light of their business context and interpreted in light of the modern law of contracts require as a matter of law the conclusion which the trial judge reached.

The first legal issue in this case centers on the proposition, conceded by defendant's principal (PX 8, III-201), and found by the trial court (Finding VI), that the parties had reached a "deal" or an "understanding". Defendant begs the question when it asserts that no contract had been formed because all of the detailed terms had not been agreed upon. Plaintiff has always freely conceded that all the details had not been agreed upon. This is true in most large scale dealings involving fluid business arrangements and the modern law of contracts, recognizing these facts, stands ready to enforce both the flexibility and the obligation of these business arrangements.

> "The trend of recent decisions indicates a policy of upholding contracts if a reasonable construction may be reached that the intention of the parties was mutually understood and readily may be ascertained." Haggerty v.

Warner, 115 Cal. App. 2d 468, 252 P. 2d 373, 375 (1953). See also Power Service Corp. v. Joslin, 175 F. 2d 698, 702 (9 Cir. 1949) citing 1 Williston, Contracts, Rev. Ed. Sec. 28.

The true issue then is whether the scope of the understanding led to the legal conclusion that the parties were in a contractual relationship. The determination of this legal issue is not hindered by the trial court's finding of fact. Quite the contrary, these findings point only in one direction, viz, that a contract had been formed. The trial court's so-called "finding" that no contract had been formed resulted from a mere assertion coupled with the erroneous understanding of the applicable law.

The second legal issue emphasized by defendant centers on its concept of "breach" of contract. On this issue it adopts the fallacy of the false disjunctive and makes the assumption that defendant's conduct must have been either fully consistent with its assumed obligation or was so fully inconsistent as to amount to a total breach of an immediate obligation.

Plaintiff will be the first to concede that defendant's conduct fell somewhat short of a punctilious and complete discharge of each of its obligations. The law, however, has recognized that "breach", like most concepts, comes in all gradations from none through partial to total, and in any application is often obscured by the passing events.

Plaintiff will now address itself, first to the actual areas of agreement, and, second to the legal implication of that agreement.

The Areas of Agreement

Defendant challenges (00 D. B. 15) the essential areas of agreement plaintiff sets forth (Main Brief, pp. 31-61). Taking the challenge in order:

A. Assertion: License under all U.S. patents.

Challenge: Plaintiff had no rights at that time.

Asserting that a fact does not exist does not make it cease to exist. Plaintiff has already refuted this in Sec. 1(b), supra. At the time plaintiff controlled the U.S. F-V-R patent rights.

B. Assertion: An obligation actively to perfect and protect those rights.

Challenge: This was not covered in the "Heads".

It is perfectly implicit that a licensor of an application will seek the full coverage to which he is entitled and that the owner of any property with a cloud on the title will seek to remove it.

C. Assertion: Refraining from Licensing another (R. T. French excepted) nationwide if defendant met certain conditions.

Challenge: R. T. French not mentioned; with co-owner the phrase meaningless.

Plaintiff contemporaneously asserted (PX 8, III-59) that R. T. French was discussed at Boise and nobody denied it. What the co-owner of one patent might have done is irrelevant to what F. M. S. proposed to do, i.e. not itself issue any further licenses under its rights.

D. Assertion: Refrain from licensing another in Idaho.

Challenge: Not covered in "Heads" - origin Troxell draft.

This first appears explicitly in Troxell's August letter (PX 8, III-119), not the December draft, and there was never any disagreement on this point.

E. Assertion: A most favored licensee position for defendant.

Challenge: Not in "Heads" - origin Troxell draft.

Plaintiff submits paragraph 2(h) of the "Heads" (PX 8, III-45) which provides for readjustment of royalty and arbitration of differences thoroughly covers this matter.

F. Assertion: A guarantee against infringement of the patents of others.

Challenge: Not in the "Heads" at all.

The "Heads" state "[F. M. S. will] accept all liabilities which may arise in connection with infringement." (PX 8, III-44).

G. Assertion: An assured license for the entire life of any licensed patents.

Challenge: Plaintiff had no patents at this time.

This was refuted under A above.

Every argument by which defendant challenges the areas of agreement is groundless. It is, of course, clear that many areas of agreement asserted by plaintiff are unchallenged by defendant. Thus, for example, the parties are in agreement that a reasonable royalty was agreed upon. Hence, the applicability of the Uniform Sales Act seems to become moot. On this score, however, we note that defendant's argument is fundamentally defective where it asserts that a patent is a chose in action and is not a chattel personal. What is it then, a chattel real? It is horn book law that a chose in action is a form of chattel personal.

Defendant now tries to show non-agreement on basics by resort to the catalog of specific, and mostly plainly agreeable, details of the Troxell formal proposal (PX 8, III-149-165). In defendant's own words Mr. Troxell's role, like that of Messrs. Edmonds and Beale, was to "put into the contract the protective provisions that will insure to his client the benefits for which he has bargained" (00 D. B. 16). This is the very anthesis of remaking or aborting an agreement already made.

Advice of Defendant's Patent Counsel

Perhaps the quickest way to dispose of this matter is to ask:

What was there in the "Heads" that Mr. Beale found objectionable that was not present in the Troxell draft?

The answer is "nothing". Any differences present had nothing to do with the expertise of a patent attorney. Plaintiff notes that claim of privilege* has beclouded whether the patent advice was consistent and defendant chose to follow it only when expedient or whether that advice was as fluctuating as defendant's conduct.

Plaintiff stands by its contention that patent counsel's "objections" to the patents as inventions were insubstantial. Some fifteen years after his conversation with Edmonds (PX 8, III-110) defendant still fails to produce the alleged anticipating "Renner" patent. If Mr. Beale really thought the "Renner" patent was "Rendle" as defendant now claims it was (00 D. B. 37), plaintiff knows defendant was being capricious and arbitrary. Rendle (DX 17, I-134) was applied for 5 years after Faitelowitz issued.

The discovery of the A. P. C. interest was substantial but if Mr. Beale advised that Simplot terminate the negotiations for that reason, his advice was not followed. By submitting the December 1949 Troxell draft, defendant clearly elected to retain its rights under all three patents and to pursue its right to an equitable modification in view of the changed circumstances. It may not now ask this Court to do what it chose not to do in 1949.

The present situation is not unlike that presented in Burch v. Baker Oil Tools, Inc., 71 F. 2d 31, (10 Cir. 1934) where the Court said:

> "During these critical years Baker's conduct deprived Burch of an opportunity to market his patents with other manufacturers... Having done this [also using patents to frighten off competition] with full and exact knowledge of the patent situation, it may not cast off Burch when it conceives that his patents have served their purpose."

---

* Claim of privilege with respect to opinions conveyed to Simplot made by Mr. Beale by written motion filed July 26, 1961.

Mutuality of Obligation

Until now defendant has consistently maintained that the March 1949 meeting created no binding obligations. Now, however, in both briefs, 99 D. B. 57 and 00 D. B. 6, defendant attacks Templeton's subsequent conduct as bad faith. While the attack is transparently nonsense [Sec. I, (i), (j), (k) and (l), supra], the mere allegation that Templeton could have been guilty of bad faith dealings involves the assumption that he was under an obligation. Unless defendant is here urging replacement of the basic contract doctrine that if one is bound, both are bound, it is here finally admitting that both Templeton and Simplot were bound.

The Law

Defendant cites and quotes (sometimes twice over) numerous decisions of varying pertinency (or lack of it) to the issues. Significantly, no decision suggests that the matters relied on by plaintiff to constitute "essentials" of a patent license agreement (p. 29, supra), do not, and only three involve patent licenses.

In Core Laboratories v. Hayward-Wolff Research Corp., 50 Del. 565, 136 A. 2d 553 (1958), the Court held that an agreement not to sue for a limited time did not amount to a royalty-free license. Duval Sulphur v. Potash Co., 244 F. 2d 698 (10 Cir. 1957) involved repeated and unwavering refusals by defendant to accept or sign a license. The Court correctly observed that this did not amount to an implied license. Rubsam v. Harley Cloney Co., 117 F. Supp. 164 (E. D. Mich. 1957), aff'd 217 F. 2d 353 (6 Cir. 1954), also involved, in the part defendant quoted, an implied license, said to exist in a certain disputed area between two parties concededly licensed in another area. As the opinion touches only the discord, it is impossible to say what, if any, elements were agreed on at any one time, or would have been regarded as essentials.

Defendant also cites Brothers v. Arave, 67 Idaho 171, 174 P. 2d

essential, which was there in dispute, was whether the boundary of a plot of land being sold ran beside a house or two feet inside it.

Hale v. Dolly Varden Lumber Co., 230 P. 2d 841 (Cal. App. 1951), aff'd. 38 Cal. 2d 458, 241 P. 2d 4 (1952), was an appeal from a denial of a motion for change of venue. The Court held venue proper because laid at the place of performance, though in dictum it found against another theory of plaintiff there, that the place of making was where it alleged the contract became binding at the oral stage, since the Court found that plaintiff had admitted the oral understanding was not complete. It is significant that the Court observed:

> "He [plaintiff] makes no attempt to define what [he means] by 'the essential terms of the contract' (230 P. 2d at 845)."

If this is the reason for defendant's reliance on this case, it is misplaced. Plaintiff here has set out what it believes were the essentials and defendant's attack on any area of these essentials of agreement is unconvincing. Defendant has signally failed to point out a single area which was both essential and in dispute.

Defendant's criticism of Pennsylvania Co. v. Wilmington Trust Co., ____ Del. Ch. ____, 166 A. 2d 726 (1960), aff'd. 172 A. 2d 63 (1961), is illuminating. The subject was a sale of the majority interest in the Toledo, Peoria and Western Railroad. The exchanged letters mentioned only the number of shares, price, approval by buyers' boards, and the I. C. C., and the fact that the railroad would continue to operate as an "independent organization". The seller continued to hold a minority interest and was extremely interested in who the new owners would be and how the railroad would run. See Pennsylvania Co. v. Wilmington Trust Co., 186 A. 2d 751 (1962). The proposed formal contract went

through three drafts. Defendant's position seems to be that formalizing the sale of a railroad is a mere scrivener's job which should have been done to everyone's satisfaction on the first draft while formalizing a patent license is so complex that it could in no wise become binding until the formal draft was executed.

Benefits Received

To use defendant's own phrase, it is rowing upstream with this argument. It asserts that the Court's Finding that plaintiff supplied defendant with "technical information of some benefit" (00 R. 49) is clearly erroneous. Yet Kueneman's letter of March 16 (PX 9, III-229) shows an abiding faith in the old freeze-thaw ways. Somebody during the next year enlightened defendant about granules. If all had been as clear as defendant now asserts, why had defendant made "minute potatoes" the year before?

Although defendant is so bewitched by language taken from Smoley v. New Jersey Zinc Co., 24 F. Supp. 294 (D. N. J. 1938) as to quote it twice in totidem verbis (00 D. B. 28 and 32), it chooses to ignore that there are three ingredients in every quasi-contractual recovery. Each has been met by appellant, viz. (1) non-officious conduct (2) done with a view to compensation which (3) conferred a benefit.

IX. LIMITATION OF ACTION

Introduction

The issue presented here is not whether defendant lived up fully to each of its contractual obligations. The issue rather is wether defendant committed an irrevocable and total breach of a presently due obligation or committed a series of partial breaches coupled with an unambiguous denial of its obligations under its "deal". Defendant's

argument that either its conduct was in full compliance or in total breach is thus fundamentally fallacious. The law of contracts has long recognized that the conduct of parties cannot always be placed in such "hot" or "cold" or "white" or "black" categories. Conduct is susceptible to doubt, like weather or temperature. If appellee were correct, we would have to say that a spring is either "hot" or "cold", whereas we know it can equally be "warm" or "chilly".

It is not otherwise with "breach". The law recognizes there are all gradations of breach and it also recognizes the issue is frequently in doubt. The Statute of Limitations was intended to protect an innocent man from paying a debt twice when records may have been lost and an avaricious creditor sought to take advantage of a lapse of time and memory. It was never intended to prejudice a good-faith party who sought to keep a contract alive by urging performance upon a balky opposite. To assume retroactively during the period from 1949 to 1956, while appellant continued to urge performance, that there was some precise moment in time when it became clear that appellee had "breached" is to indulge a fantasy and strip appellant of the protection which the law was expressly designed to provide.

The Defendant's Conduct

Plaintiff has already stated that had defendant in 1949 made an unequivocal statement of denial of a "deal" or "understanding", the contract suit would never have been brought. Or, had defendant wished to determine its obligation at law, it had a right to seek declaratory judgment thereof. However, defendant chose to take neither such forthright action. It chose rather the sheltered position of a free guest in the license club by speaking of "our deal on granular patents" (PX 8, III-201) while deferring the distasteful paying of dues (royalties) until its patent counsel

was "satisfied" with the patents (PX 8, III-199).

In an attempt to show "breach" sufficient to trigger the Statute of Limitations, defendant again distorts the record. Defendant says (00 D. B. 42) the three F-V-R patents were mutually exclusive, which is false (Sec. I(n), supra). From this it illogically concludes that plaintiff could have sued as holder of only two of the patents, while defendant was licensed under all three patents.

It is not true that plaintiff rejected (00 D. B. 43) the formal Troxell draft as a consequence of the confused title to Faitelowitz. What plaintiff objected to was first Mr. Beale's August overture that the royalties be contingent on full formal record title to Faitelowitz and on Rivoche's issuing in a form satisfactory to Simplot (PX 8, III-130) and second Mr. Troxell's December proposal that defendant have an extra year's free option to an exclusive position (PX 8, III-149-165).

Defendant falsely asserts the trial court found plaintiff had repudiated the understanding (Sec. I(d), supra) and that plaintiff's licensing of another in 1950 was at variance with the understanding (Sec. I(k), supra.).

In an attempt to minimize the continuing negotiations between the parties, defendant states that Mr. Beale met with Mr. Templeton or his attorneys three times in seven years (00 D. B. 47). This is the truth, but not the whole truth.

> "[Fisher] has had several meetings with Mr. Beale. They certainly seem to be going over things with a fine-tooth comb." (Scott to Simplot, July 1951, PX 8, III-197).

The trial court concluded that "breach" occurred when defendant went into production in 1951 or alternatively, when defendant was "openly critical" (00 D. B. 44) of Templeton's right to license others. While it is doubtful that either of these acts were of themselves even partial breaches, it is perfectly clear that in neither instance did defendant

unambiguously deny its "deal" and the consequent possibility that it too would fall in line and pay royalties when plaintiff was able to re-acquire the Faitelowitz patent. Thus plainitiff's cause did not then arise.

The Delayed Faitelowitz Revesting

Defendant asserts correctly that plaintiff was under an obligation to revest with reasonable diligence, but concludes wrongly it did not do so. Its conclusion that plaintiff did not proceed with reasonable diligence is undoubtedly caused by its unfamiliarity with the law. Why did it take seven years to re-acquire Faitelowitz? The answer is that on April 30, 1949, by an unfortunate coincidence, the time limit for making the claim expired, 50 U.S.C. App. § 33 (62 Stat. 1218). For the next five years, although bills were pending to extend the time for filing claims, none passed. Then on February 9, 1954, a bill was enacted allowing claims to be filed during the ensuing year (68 Stat. 7). After negotiating with Bunimovitch for his interest, the claim was filed within that year. Such delay as occurred after that is due solely to operations of the Federal Government. Plaintiff acted with reasonable speed.

X. LACHES

As to Patents

Defendant's argument (99 D.B. 59) conveniently ignores both the law and the facts. This Court said in Craftint v. Baker, 94 F.2d 369 (9 Cir. 1938), which defendant cites:

> "Courts generally follow the analogous statute of limitations.... the burden is on defendant to show that extraordinary circumstances justify the application of the doctrine of laches (cases). There must be reliance on the delay resulting in a change of position...."

Defendant ignores that it never renounced its position under the licenses. In 1952 Mr. Simplot wrote about "our deal on granular patents" (PX 8, III-201), and between July and November 1956, Mr. Beale again came to plaintiff's attorneys to discuss the license (PX 8, III-223, 224). License is a defense to infringement.

As to the Contract

Plaintiff reiterates its position that this plaintiff could not have successfully sued this defendant on the contract before 1956 when defendant for the first time announced it would not only pay no royalties to the non-owner of Faitelowitz, it would not pay to the owner of Faitelowitz. The charge of laches then must be limited to the three and one-half years between this pronouncement and the filing of suit.

Defendant cites Finucane v. Village of Hayden, ___Idaho___, 384 P. 2d 236 (1963), which states the elements of laches. Item three is:

> "lack of knowledge by defendant that plaintiff would assert his rights."

Wherein is defendant's lack of knowledge? In the 1956 meeting where plaintiff's attorney requested defendant to sign a license, in the 1958 letter stating plaintiff had joined defendant in a Delaware suit (PX 8, III-226), or in 1959 when plaintiff sued for patent infringement a few months before filing suit on the contract?

While it is true that laches may in some circumstances occur in a very brief time, Chilburg v. City of Los Angeles, 54 C. A. 2d 693, 128 P. 2d 693 (1942), appellant does not find in that case any dispute between the parties over the plaintiff's title to the land between 1938 and 1941.

In Whitman v. Walt Disney Productions, Inc., 263 F. 2d 229, 231 (9 Cir. 1958), cited by defendant, Judge Barnes reviewed ten years of total inaction by plaintiff and observed:

"His right to bring the suit at any time... is not questioned (emphasis Court's)."

In none of the other cases mentioned by defendant was there the element of inability to sue on the property in contention. While the language is appealing, it is inapplicable to a situation where the defendant never renounced its free membership in the license club (even if it did obliquely make an apparently unfulfilled offer to join others in an abortive revolt), where defendant was never in any doubt that plaintiff intended to enforce its right, where it made its pre-1956 investment without any attempt to resolve its position under patents it knew plaintiff was asserting against others in like position, and where plaintiff promptly began asserting its rights in and outside the courthouse, when the Faitelowitz patent revested.

XI. CONCLUSION

Nothing defendant has said in either brief weakens the basis for plaintiff's prior conclusion that this Court should enter judgment that the F-V-R patents are valid and have been infringed, and that defendant has breached agreement and should account to plaintiff.

Respectfully submitted,

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April 14, 1964

APPENDIX

A-1

From Pages 450 and 451 of the Transcript
(See p. 5, supra.)

MR. BEALE: Will you agree with me that the present plaintiff, Templeton Patents, Limited, is a family corporation?

MR. LANGROISE: If your Honor please, I have not objected, but I cannot see that this is material, or the relevancy, or the competency, and it is not a subject of proper cross examination.

THE COURT: Maybe Mr. Beale has something in mind. I don't know what difference it makes in the lawsuit--maybe it does.

MR. BEALE: I think it is.

THE COURT: Is it?

MR. BEALE: When it goes to interest.

THE COURT: If it is admitted that the Plaintiff is a corporation, It couldn't make any difference who the stockholders are, could it?

MR. BEALE: If this is a family corporation, it does go to the interest of the principal shareholder.

THE COURT: I have suspected all through the testimony that he is very, very much interested in the outcome of the litigation. I don't think there is a doubt about it.

MR. BEALE: I wanted to show there is a financial interest.

THE COURT: I think that he would admit that. I don't think it makes any difference to the Court whether Mr. Simplot is the sole owner of the Simplot Company or whether Mr. Templeton is the sole owner of the Templeton Company. It has nothing to do with this lawsuit.

Rivoche U.S. Application as Filed
(See p. 10, supra)

Disclosure:

".... Finally the cooled cooked vegetable may be thoroughly mixed with a previously prepared dry powder of the same vegetable to produce a lower percentage moisture content than has the cooled cooked vegetable.

".... As a general rule, the moisture content of the material subjected to the final hot drying should preferably be 50% or less.

"In order to produce a material with the moisture content requisite for carrying out the final hot drying stage of the method, if the moisture lost in the cooking operation and during the subsequent cooling or freezing is not sufficient, the material may be treated by all or any of the methods described or by a combination of them in order to achieve a moisture content not exceeding 50% in the case of starchy vegetables...." (PX 3, II-18).

Claim 9:

"9. The method as claimed in any of the preceding claims, which comprises adding to the vegetable after cooking and prior to the hot air drying operation, a quantity of the dried product produced by practice of the method claimed.... for the purpose of reducing the proportion of moisture in the vegetable." (PX 3, II-27).

FAITELOWITZ CLAIM APPLIED

Claimed Steps	Main Brief Applies	Basis
(a) Cooking the vegetables at a temperature which must not substantially exceed 100°C.	p. 97. Undisputed literal infringement.	The potatoes are stean and water cooked (99 D. B. 26).
(b) Cutting the cooked vegetables into small pieces.	p. 97. Mashing is certainly the equivalent if not the literal step of...	Cited Steffen (DX 17, I-164). Defendant apparently agrees. (99 D. B. 36).
(c) Partially drying the pieces at a temperature which also must not substantially exceed 100°C. until they have lost at most about 60% by weight of their initial water content.	) pp. 81-96. The description of the Faitelowitz invention and the heart of this appeal. Defendant infringes because it too predries under 100°C. and it too produces a moist powder before final drying.	
(d) Reducing the partially dried pieces to the form of a moist powder.	)	
(e) Further drying the moist powder, at a temperature which must not greatly exceed 80°C. until it has a water content of approximately 10-15% by weight.	p. 97. Undisputed literal infringement.	See 99 D. B. 26-27.

From Plaintiff's Trial Court Reply Brief
(See p. 25, supra.)

It is eminently clear that all assignments in the Faitelowitz patent subsequent to the divestment by the Alien Property Custodian deal with an expired patent.* All of these assignments purpose to assign whatever right, title and interest the assignor had. Included by operation of law in the assignment of an expired patent is the right to sue for past infringement. Indeed, there is nothing else to transfer. 2 Walker, Patents (Deller's Ed. 1937), pp. 1405-6:

> "An assignment of a patent after it expires is a nullity with respect to the transfer of a monopoly but will operate to transfer to the assignee the right to sue for past infringements. [Citing, inter alia, Tompkins v. St. Regis Paper Co., 226 Fed. 744 (N. D. N. Y. 1915), aff'd. 236 Fed. 221 (2 Cir. 1916) and Montgomery Palace Stock Car Co. v. Street Stable Car Line, 142 Ill. 315, 31 N. E. 434 (1892)]."

* Volpert to F. M. S. 1956, DX 16, Tab 8; Rivoche to F. M. S. 1956, DX 16, Tab 8; Bunimovitch to F. M. S. 1956, DX 16, Tab 9; and F. M. S. to Tempat 1958, DX 16, Tab 10.

In the

United States Court of Appeals

For the Ninth Circuit

TEMPLETON PATENTS, LTD.,
Plaintiff-Appellant,

vs.

J. R. SIMPLOT COMPANY,
Defendant-Appellee.

No. 18899

PETITION FOR REHEARING

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In the

United States Court of Appeals

For the Ninth Circuit

TEMPLETON PATENTS, LTD., Plaintiff-Appellant, vs. J. R. SIMPLOT COMPANY, Defendant-Appellee.	No. 18899

PETITION FOR REHEARING

In this Petition, plaintiff-appellant, mindful of the proper role of rehearing, will not reargue the case as a whole, believing that it has already "put its best foot forward," but will limit the area in which rehearing is urged to such part of the Opinion of this Court as deals with the basic Faitelowitz patent and the parts of the Judgment of this Court which were consequent upon that part of its Opinion.

It is plaintiff-appellant's contention that this Court has fallen into a plain error of law in finding in the add-back prior art a significance to the valid scope of the Faitelowitz claim which had never before occurred to appellant or been put forth by appellee or the District Court. The error is made manifest by the logical inconsistency of these two statements from the Opinion of September 4, 1964:

"It would appear abundantly clear that application of this well-known method of dehydration [add-back] to cooked potatoes would not constitute invention and that the use of add-back for this purpose could not itself form the basis for a patent." (p. 3)

"It would indeed appear that in discovering the effect of two-stage dehydration upon the cellular structure of potatoes Faitelowitz made a discovery of major importance to the industry." (p. 4)

The applicable law indisputably includes:

U. S. Const. Art. 1, sec. 8. "The Congress shall have power . . . To promote the progress of . . . useful art, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries."

Comment:

Hence, if otherwise complying with the statutes enacted by Congress pursuant to this power, the "discovery" of the "inventor" Faitelowitz is clearly patentable.

35 U.S.C. Sec. 101. "Whoever invents or discovers any new and useful process . . . may obtain a patent therefor, subject to the conditions and requirements of this title."

35 U.S.C. Sec. 100(b). "The term 'process' . . . includes a new use of a known process . . ."

Comment:

Although Faitelowitz apparently did not realize it, the best two-stage dehydration process to employ to utilize his discovery was the known process of add-back, among many known specific processes for accomplishing drying of materials other than cooked potatoes in two stages.

IT IS THE ILLOGICAL CONSEQUENCE OF THE OPINION THAT IT HOLDS THAT FAITELOWITZ MADE A PATENTABLE DISCOVERY

ONLY BECAUSE HE DID NOT DISCOVER AND SPECIFICALLY CLAIM THE BEST WAY TO USE HIS DISCOVERY. This is to say, Faitelowitz made his discovery in connection with the less desirable heat approach to two-stage drying and claimed it in a manner not limited to that approach, but this Court now seems to hold that claim can only be infringed by that less desirable approach, because if the best approach, add back, is used, it is inherent in the nature of add-back that it will work. Or, in short, if Faitelowitz had himself hit on the add-back method of practicing his discovery instead of his heat method, he would not have made a patentable discovery since he could not validly claim what he disclosed.

The Opinion (p. 4) goes on to add:

> "It would also appear, however, that as to add-back all this [Faitelowitz's] discovery did was to supply a scientific explanation of why this already well-known method of drying (with its built-in, two-stage process) was particularly well suited to the dehydration of potatoes."

This is contrary to the Congressional mandate of 35 U.S.C. Sec. 100(b) and 101 since the record establishes that two-stage drying, whether by add-back or otherwise, had never before been applied to produce a dry powder from cooked potatoes reconstitutable to a palatable dish of mashed potato. Two-stage drying was, of course, a process old before Faitelowitz for many uses; to use it for the drying of cooked potatoes was a new use of an old process which gave rise to "a discovery of major importance." While it may well be that, granted the pre-existence of Faitelowitz's broad discovery, which he could, and did, properly claim broadly, the known two-stage character of add-back drying made the application of add-back to Faitelowitz obvious. If this is what the Court really meant, it would logically support a judgment that Volpertas' proposal was obvious; it emphatically does not support a judgment that the broad Faitelowitz claim is not infringed.

Nor do the cited decisions of the Supreme Court* support the Court's view that to hold the broad Faitelowitz claim infringed by add-back would "bring within his patent monopoly a principle otherwise available to the public"(Opinion, p. 4). All processes operate in accordance with, and not contrary to, the laws of nature; the principle of heat drying, in one or two or more stages, was, when Faitelowitz made his discovery, no more and no less available to the public than the principle of add-back; by inescapable logic, all patents granted pursuant to 35 U.S.C. Secs. 100(b) and 101 for a new use of an old process must bring with them their monopoly a new application of a principle already available to the public. If either of the cited cases, from 1852 and 1948 respectively, could be said to stand for the proposition that a new use of an old process is not patentable, they have, of course, been overruled by the subsequent enactment of the Patent Act of 1952, Title 35, United States Code. They stand, rather, however, for the proposition that a mere statement of a desired result or of an observed natural phenomenon is not patentable, but Faitelowitz disclosed and claimed far more than a result or an observation. He disclosed a specific, and claimed a broad, two-stage drying process with the production of a particular intermediate product, moist powder, which constituted a major industrial breakthrough when applied by add-back.

* LeRoy v. Tatham, 55 U.S. (14 How.) 155, 174 (1852); Funk Bros. Seed Co. v. Kalo Co., 333 U.S. 127 (1948).

This Court should reconsider its ruling affirming, on new grounds, the District Court's holding that appellee was not in infringement of Faitelowitz, for those grounds are clearly unsound.

Respectfully submitted,

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CERTIFICATE OF COUNSEL

I hereby certify that the foregoing Petition for Rehearing is well founded and is not interposed for delay.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Petition for Rehearing were served on Defendant-Appellee by:

(1) Delivering three copies thereof to the offices of Beale and Jones, 425 Thirteenth Street, N.W., Washington, D.C. on September 18, 1964;

(2) Mailing three copies thereof, airmail postage prepaid, addressed to Hawley, Troxell, Ennis & Hawley, First Security Bank Building, Boise, Idaho.
